2017

ANNUAL REPORT

MuniFin
MUNICIPALITY FINANCE

Year 2017 CASE

ROCK HOUSE JALLUKKA

Located in Helsinki's Jätkäsaari district, Jallukka is an example of a new concept for low-cost, communal and ecological rental living, developed by M2-Kodit, part of Y-Foundation Group. MuniFin has provided financing for M2-Kodit's share of the building. One third of the building's apartments are owned by the Live Music Association ELMU and are reserved for music industry professionals.

Content

MuniFin in brief

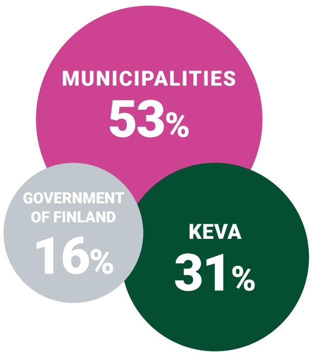
Municipality Finance's mission is to build a better future in line with the principles of responsibility and in cooperation with its customers.

New long-term funding in 2017

9.6

EUR billion

Shareholders



Credit rating

AA+ **Aa1**

AA+ / Standard & Poor's

Aa1 / Moody's

Lending portfolio

21.2

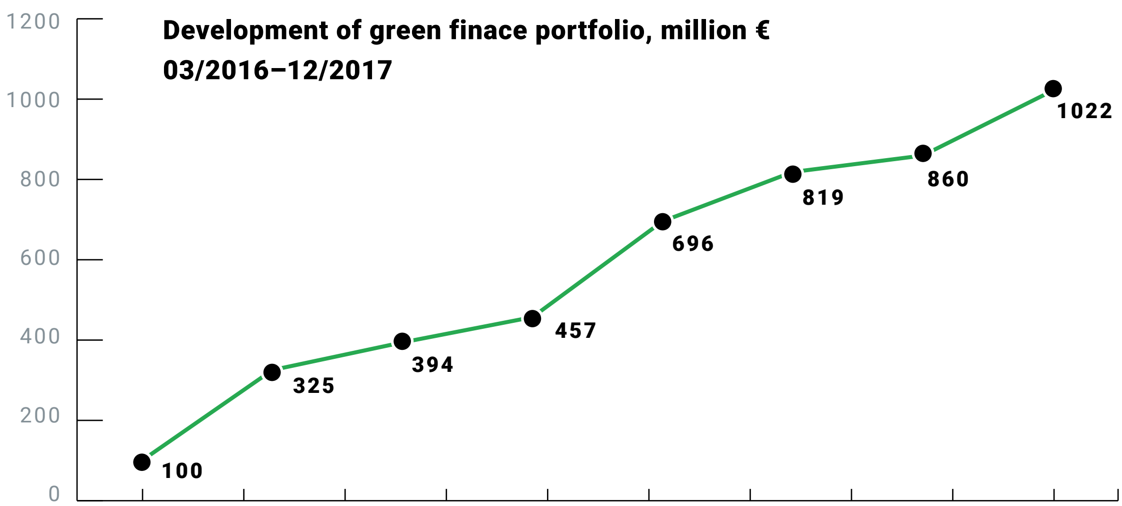
EUR billion

Happy customers

6.3

How positive is your image of MuniFin compared to other actors in the same field?

Development of green finace portfolio, million €
03/2016–12/2017



Year 2017

Highlights of 2017

- The demand for financing from MuniFin grew somewhat from the previous year. The growth was mainly due to the strong growth in the government-subsidised housing production.

- The amount of new loans withdrawn from MuniFin totalled 2,439 million euros, which is 16.6 per cent less than the year before. Competition tightened in the financial markets in 2017.

- The largest information system change in the history of MuniFin was completed in 2017. It involved several years of work on key system integration and the automation of funding processes. With the change now complete, the effectiveness and efficiency of funding processes have improved significantly throughout MuniFin's organisation.

- MuniFin's green financing project portfolio grew to exceed one billion euros. Customers welcomed green finance even more positively than expected.

- MuniFin issued its second green bond in September 2017. The bond was oversubscribed six times over in just one hour, making it the most sought-after bond in the history of MuniFin.

- MuniFin updated its strategy to extend to 2022. At the core of the strategy is close partnership with customers throughout the whole life cycle of the financing process, from the planning of an investment to the eventual repayment of the loan.

- Together with other Nordic issuers, MuniFin released a position paper on the principles of green bonds impact reporting. There is a clear need to harmonise the impact analysis in the green bonds market.

- The President and CEO of Municipality Finance, Pekka Averio, resigned from the company in August. Deputy to the CEO Esa Kallio was appointed as Interim President and CEO.

- MuniFin has put significantly more effort into business development and the development of digital services. During 2017, the number of staff at MuniFin grew from 106 to 134 employees. This historic increase in the number of staff especially took place in development, risk management and reporting.

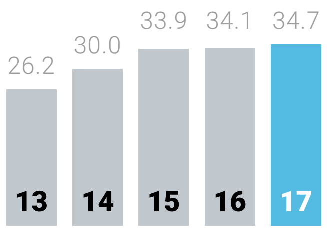
Esa Kallio was appointed as the President and CEO of MuniFin on 28 February 2018.

Year 2017

Key figures in 2017

KEY FIGURES (GROUP)	2017	2016	Change, %
Net interest income (EUR million)	228.5	206.1	11 %
Net operating profit (EUR million)	198.4	174.2	14 %
Lending portfolio (EUR million)	21,219	20,910	1 %
Total funding acquired (EUR million)	30,153	28,662	5 %
Balance sheet total (EUR million)	34,738	34,052	2 %
Ratio of total own funds to risk-weighted assets, %	75.51 %	66.89 %	13 %
Total own funds (EUR million)	1,293	1,124	15 %
Leverage ratio, %	3.84	3.54	8 %

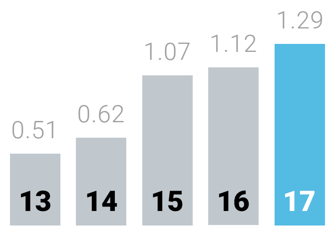
Balance sheet total 2013–2017



34.7

EUR billion

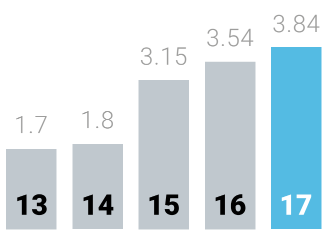
Total own funds 2013–2017



1.29

EUR billion

Leverage ratio 2013–2017



3.84%

Year 2017

CEO's review

In many respects, 2017 was a good year for MuniFin and its customers. The Finnish economy was on a steep growth path: municipalities received more tax income than expected, which made their cash position stronger than anticipated.

The strong financial position of municipalities resulted in moderate growth in their demand for financing, while the demand for financing government-subsidised housing production grew distinctively along with general growth in the construction industry. The green finance launched in 2016 proved very popular, and the green project portfolio now exceeds one billion euros.

Despite the tighter competition for financing in Finland, MuniFin is still by far the largest provider of financing for the municipal sector and government-subsidised housing production.

In 2017, the liquidity of international capital markets was high and MuniFin succeeded in its funding. To a large extent, this was due to the successful implementation of strategic benchmark bond transactions.

Among many changes taking place around us, our aim is to ensure the sustainability of our operations.

Year 2017

We recruited a record number of new employees in 2017 to meet future challenges and our customers' changing needs. Growth is particularly taking place in the company's development functions, which aim to offer new financing solutions and digital solutions to our customers, as well as improve our internal systems and processes. The goal is to make our organisation more agile and enhance its ability to change.

Responsibility has always been the core principle that steers operations at MuniFin. With the organisation growing rapidly and many external changes taking place around us, our aim has been to ensure the sustainability of our operations. That is why we put our efforts into ensuring responsible business conduct throughout the organisation, and as a result, 2017 saw the definition of MuniFin's corporate responsibility principles.

The international markets are affected by a large number of uncertainty factors. In general, however, the markets are also expected to remain stable in 2018. In addition to open political issues, the key questions remain unanswered surrounding the schedules and effects of the controlled reduction of central bank asset purchase programmes.

Overall, positive economic growth in Finland is expected to continue in 2018. If this becomes a reality, it could mean that the demand for financing will remain at a moderate level. On the other hand, the operating environment has become more difficult to predict in recent years: it is also possible that municipalities make bolder growth investments when the economy is strong.

Esa Kallio
President and CEO
Municipality Finance Plc

Year 2017

Wide social impact

MuniFin is the only financial institution in Finland specialised in financing the municipal sector and non-profit housing production. MuniFin's funding is guaranteed by the Municipal Guarantee Board, the members of which include all municipalities in mainland Finland.

The shareholders of MuniFin are Finnish municipalities, Keva and the government of Finland. This ownership structure means that, rather than maximising its profits, MuniFin is tasked with being the best possible financial expert for its customers in an ever-changing world.

In its customer segments, MuniFin is a clear market leader. In practice, the effects of MuniFin's financing can be seen in the everyday lives of everyone living in Finland: day care centres, schools, healthcare centres, hospitals, sports facilities, municipal infrastructure, rental housing, and housing for people with special needs.

As a credit institution that specialises in the municipal and residential sectors, MuniFin knows the special characteristics, operating environment and the needs of its customers. The objective of MuniFin's financing operations is to comprehensively help its customers with all their investment and financial needs, including investment planning and identifying investment opportunities, as well as continued assistance throughout the life cycle of their investments.

MuniFin supports Finnish universities and other higher education institutions through donations and competence sharing, especially with regards to municipal sector finances and investments. In 2017, MuniFin and Hanken Svenska handelshögskolan launched a joint study on the impact of MuniFin's operations on Finnish society and the lives of everyone living in Finland.

Year 2017

BEST SOLUTIONS ARE GENERATED THROUGH COOPERATION

MuniFin's customer strategy is based on close cooperation. Maintaining high customer satisfaction at all times is a guiding principle for MuniFin's operations.

MuniFin shares its competence with its customers and other stakeholders, and develops products and services based on the needs of its customer base. MuniFin's subsidiary Inspira focuses on providing financial advisory services that are needed to implement demanding financial and ownership arrangements within the public sector.

MuniFin's role as a social financier is based on a partnership with its customers. Due to its wide social impact, MuniFin is also building partnerships and cooperation with other key stakeholders in a goal-oriented manner. These include the Association of Finnish Local and Regional Authorities, Keva, the Housing Finance and Development Centre of Finland (ARA), the Ministry of the Environment, the State Treasury, the Finnish Environment Institute (SYKE), universities and other higher education institutions, banks, and many others.

In 2017, MuniFin defined its first-ever corporate responsibility strategy. The purpose of the strategy is to ensure responsibility in all MuniFin's functions and those of its cooperation partners.

MuniFin wants to ensure its customers are able to financially undertake their required investments. This also entails being responsible for ensuring that the customers' investment decisions are economically viable and sustainable.

MISSION

Building a better future in line with the principles of responsibility and in cooperation with our customers.

VISION

MuniFin is the best financing partner for its customers in a changing world.

VALUES

- The customer is number one
- Integrity
- Partnership
- Creativity and capacity for renewal
- Spirit of cooperation

SUCCESS FACTORS

- Happy customer
- Efficiency
- Risk management
- Responsibility
- Skilled and motivated staff
- Creditworthiness of the joint funding system

Year 2017 CASE

WELLBEING CENTRE IN SODANKYLÄ

The wellbeing centre under construction in Sodankylä and due for completion by the end of 2019 will be a one-stop shop, combining the region's social and healthcare services and most of the municipality's services into a flexible service chain. The municipality of Sodankylä ended up using a lifecycle model for the centre's construction, on the recommendation of MuniFin's subsidiary Inspira. The project is funded on the basis of MuniFin's real estate leasing.

Year 2017

Business

MuniFin enables investments that have significant effect for the whole society and aim at improving the wellbeing of everyone living in Finland.

Business / Customer finance

Customer finance

RESPONSIBILITY

Responsible products and services

The projects financed by MuniFin have a wide-ranging impact on the Finnish society. The financing granted is primarily long-term, with loan maturities up to 40 years.

Social responsibility is emphasised in MuniFin's operations because the projects financed by MuniFin aim to maintain and improve the Finnish welfare society in the long-run. Examples of socially responsible projects include hospitals, healthcare centres, schools, daycare centres, the production of housing for special groups, and affordable social housing as well as investments in other environmental projects.

From a financial perspective, 2017 was a positive year for the Finnish municipal sector. In general, financial activity increased, and municipalities received more than expected tax income while managing to control their expenses. As a result, the financial situation of municipalities was better than anticipated and the demand for loans grew moderately from the year before. MuniFin issued in total EUR 2.4 billion in new loans in 2017 (2016: EUR 2.9 billion).

Competition tightened in the financial markets in 2017. Also the international financial institutions are interested in financing Finnish customers like hospital districts and the largest cities. Despite tighter competition, MuniFin remains by far the most important financier in its customer segments.

The health, social services and regional government reform significantly affects the operating environment of MuniFin's customers. The reform's final model, details, and how these are to be interpreted are yet to be resolved. This makes it difficult for MuniFin to anticipate its own operations, and even more so the operations of its customers. MuniFin closely monitors the progress of the reform and its potential effects on MuniFin's operations.

As a financier specialising in municipalities, the entire Municipality Finance Group has been able to assist its customers in the evaluation of the impact of the health, social services and regional government reform on their financing as a whole. To some extent, customers may be postponing investing because they are waiting for the reform to be realised. The reform has caused increased interest in the assignments of MuniFin's subsidiary, Financial Advisory Services Inspira, as municipalities map their alternatives and prepare for the reform's impact.

Business / Customer finance

Given the positive economic situation, the demand for financing government-subsidised housing production continued to be strong, and in particular, the production of rental housing picked up. The new, short-term interest subsidy model introduced to the markets has raised some interest but has not yet become a significant part of MuniFin's housing finance.

BETTER FINANCING SOLUTIONS

In 2017, Municipality Finance revamped its organisation to be able to develop more flexible, diverse and comprehensive financing solutions to meet customer needs. Other measures towards this goal include close cooperation between the parent company and its subsidiary, Financial Advisory Services Inspira, as well as putting major effort into the development of its own operations.

MuniFin offers its customers financing solutions that meet a wide range of needs. The customer base has an ever-increasing demand for solutions other than loans. Leasing-based financing solutions have increased their popularity and the use of leasing has diversified in recent years. Leasing has become more commonly used, for example, in real estate financing and particularly for schools and day care centres. In 2017, the lease financing portfolio of MuniFin totalled EUR 432 million. This means a growth of 51 percent from the previous year.

In 2017, MuniFin renewed the online service for managing lease financing agreements, and this development work will continue in the near future.

The demand for green finance – a concept first launched in 2016 – was also a positive surprise in 2017. The green finance project portfolio – investments earmarked for environmental projects – reached a milestone by exceeding one billion euros. The effectiveness of a green project is especially evaluated through energy-efficiency and reduced carbon dioxide emissions, but indirect effects are also evaluated. A more detailed evaluation of the effects of green financing is available in a separate report.

The primary targets for green finance are public transport and sustainable construction. The largest individual green projects include the West Metro and Tampere Tramway, while the most typical projects receiving green financing are school buildings. Residential buildings were introduced to the green finance project portfolio for the first time in 2017. Housing construction offers immense growth potential for green finance. Among others, MuniFin collaborates with the Ministry of the Environment and the Housing Finance and Development Centre of Finland (ARA) to advance low-carbon and energy-efficient construction. The objective of MuniFin is to further encourage the Finnish municipal sector to take environmental aspects more comprehensively into account when making investment decisions.

RESPONSIBLE LENDING

At the end of 2017, Municipality Finance developed its loan granting process. The changes will make MuniFin's own risk management more effective and improve the quality of customer services.

In the renewed process, the customer's financial situation and the profitability of the planned investment are now evaluated more thoroughly than before: data is collected and processed automatically from multiple sources and analysed systematically. The data is utilised in the internal analyses of market trends and discussions with customers. As a result of this more effective process, both MuniFin and its customers have a better understanding of the customers' overall financial situation.

MuniFin offers its customers financing solutions that meet a wide range of needs.The customer base has an ever-increasing demand for solutions other than loans.

While the key part of the renewal was to develop the sources of customer data, analytics and data management, the final evaluation of the customer's situation is carried out in cooperation with the customer. Discussions and mappings relating to financing provide valuable insights to both parties.

Business / Customer finance

TOOLS FOR ECONOMIC MODELLING AND THE EVALUATION OF FINANCING OPTIONS

In 2017, Municipality Finance continued to develop and expand the functionalities that the Apollo service offered to its customers. In addition to total portfolio management and the simulation of financing options, it now also covers the management of guarantee liabilities and investments. Apollo's customer base is growing rapidly and covers all major cities in Finland. At the end of 2017, Apollo had 490 individual users.

Apollo is a good example of a service whose development was launched at the customers' initiative and whose further development phases will be prioritised with the customers.

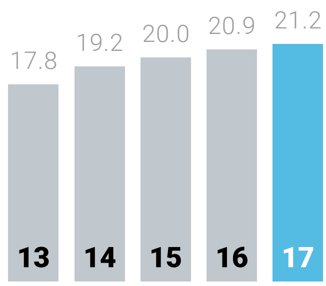
With the Apollo service, MuniFin's customers have access to a highly versatile financial planning tool. According to the feedback received, MuniFin has built a digital services roadmap that contains advanced tools for economic modelling.

PRECISE SOLUTIONS TO PROBLEMS FROM INSPIRA

The assignments of Municipality Finance's subsidiary, Financial Advisory Services Inspira, included in 2017 the preparation for health and social services and regional government reform, solving the indoor air quality problems of buildings through life cycle construction, and the increasingly popular public-private partnership models.

Inspira's turnover developed favourably to EUR 2.7 million (2016: EUR 2.2 million). The amount of assignments was roughly the same as the year before. In future, the amount of customer projects executed jointly with MuniFin is also expected to grow.

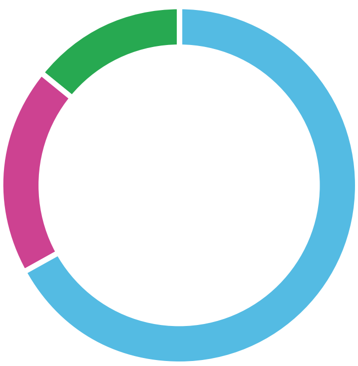
Lending portfolio 2013–2017



21.2

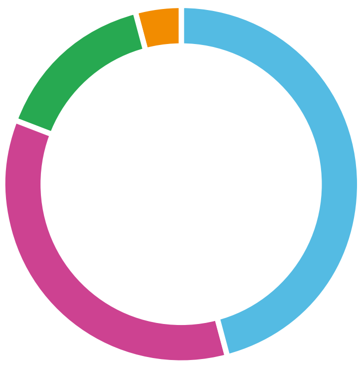
EUR billion

Lending portfolio by rate type



Euribor 67 %
Long-term rate 19 %
Fixed 14 %

Lending portfolio by customer type



Housing corporations 46 %
Municipalities 35 %
Local government corporations 15 %
Municipal federations 4 %

Year 2017 CASE

APOLLO

Apollo is an easy to use and secure cloud service for use by MuniFin's customers in the group-level, overall management of their financing agreements and guarantee liabilities. The service provides an easy way of analysing a financing portfolio as a whole and simulating the effects of alternative financing solutions on it. The service includes real-time marketing information and reporting models developed on the basis of customer needs.

Business / Funding

Funding

From the funding perspective, 2017 was an excellent year for Municipality Finance. The situation within MuniFin's funding markets was favourable, and the margins on acquired funds reduced during the year simultaneously with successfully timed public benchmark bond transactions.

The total funding acquired by MuniFin in 2017 was EUR 9.6 billion (2016: EUR 6.7 billion).

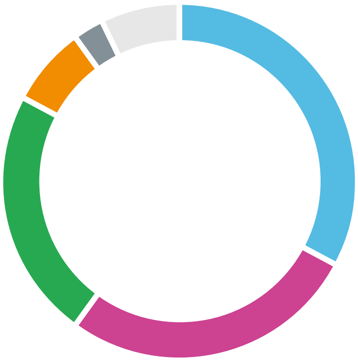
MuniFin acquires funding from international capital markets. The prerequisite for highly competitive funding is that the Finnish municipal sector, and subsequently MuniFin, have a strong credit rating, and that their credit rating is the same as the Sovereign's credit rating. The work that MuniFin itself does also plays a key role in the success of funding. MuniFin is known in the capital markets as a flexible and fast-reacting partner.

The municipal sector and housing production play a key role in the achievement of Finland's climate goals. MuniFin aims to operate in a way that lowers the threshold of its customers to make environmentally sustainable investments.

In 2016, MuniFin launched the concept of green finance. Projects eligible for green finance promote the achievement of Finland's climate goals and sustainability in the long run. Eligible projects are financed with green bonds, which the company aims to issue annually.

MuniFin's goal is that by 2025 the share of green finance is 15% of the total lending. The company also aims to increase the amount of socially responsible investors and investments (SRI) and to mitigate the environmental impact of the company's own operations.

Funding by currency in 2017

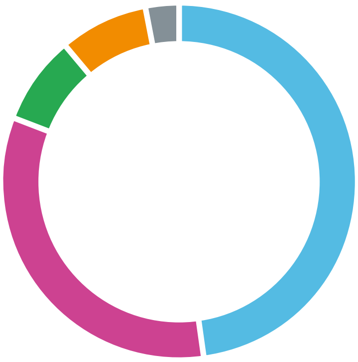


- US Dollar (USD) 33 %
- Japanese Yen (JPY) 27 %
- Euro (EUR) 23 %
- Turkish Lira (TRY) 7 %
- UK Pound Sterling (GBP) 3 %
- Other currencies 7 %

Funding by investor type in 2017

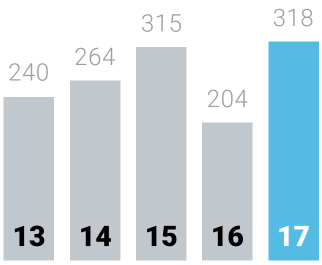
- Retail 30 %
- Banks 24 %
- Central banks and official institutions 17 %
- Asset managers 15 %
- Insurance companies and pension funds 14 %

Funding by region in 2017



- Asia Pacific 48 %
- Europe 33 %
- Nordics 8 %
- Americas 8 %
- Africa and The Middle East 3 %

Total number of funding transactions 2013–2017



Prospera, a Swedish market research company specialising in the financial sector, conducts an annual survey on international investors and banks that provide broker services to get their opinions about Northern European so-called SSA issuers (Sovereigns, Supranationals and Agencies), i.e., organisations with a non-profit status. Those included in the survey alongside MuniFin included its counterparts from other Nordic countries, as well as the German KfW Development Bank, the European Investment Bank (EIB) and the Nordic Investment Bank (NIB). All the organisations included in the survey were rated highly for their competence and attractiveness as investment targets. In the survey, MuniFin was ranked first or second of all the included institutions in the evaluation of staff competence, the quality of the information and the credible selling story.

ONE SUCCESS AFTER ANOTHER

In Municipality Finance's funding operations, the year 2017 was marked by successful public bond issues.

For MuniFin, benchmark bonds are strategically significant transactions used to strengthen its position in key markets. In 2017, MuniFin issued three benchmark bonds in total: two US dollar-denominated benchmark bonds of 1 billion each, and one EUR 1 billion benchmark bond. The timing of the benchmark bonds was excellent and they were all oversubscribed. According to GlobalCapital BondMarker, the benchmark bond issued in July was the second most successful US dollar-denominated bond issue in Q3 of 2017. In December, the Capital Market Daily portal selected Municipality Finance as the best of the year among issuers of structured notes for the third year in a row.

The second-ever green bond in the history of MuniFin, set at EUR 500 million and issued in September, was oversubscribed six times within the first hour. The issue was the most sought after loan in the history of MuniFin, and was very tightly priced. The loan also continues to be in demand in the secondary markets, and it has had a positive effect on the valuation level of all MuniFin's euro-denominated benchmark bonds.

In addition to public financing arrangements, MuniFin also succeeded well in tailored funding arrangements. 2017 saw the issue of MuniFin's first ever tailored green bond. The subscriber of the AUD-denominated private placement was the Japanese life insurance company Fukoku Life.

THE GUIDING PRINCIPLE IS DIVERSIFICATION

One of the guiding principles of Municipality Finance's funding is effective diversification. MuniFin has diversified its funding across markets, currencies, maturities, and different types of investors. Derivatives are used to hedge against currency and interest rate risks.

In 2017, MuniFin expanded its funding to new markets by issuing the first ever Formosa bond in its history. The bond was listed on the Taipei Exchange in Taiwan.

Year 2017 CASE

FUKOKU LIFE

2017 saw the issue of MuniFin's first ever tailored green bond. The subscriber of the ten-year AUD-denominated private placement was the Japanese life insurance company Fukoku Life. With this investment, Fukoku Life aims to do its part to promote the mitigation of greenhouse gas emissions and generate a positive social impact.

MUNIFIN GREEN BOND

Business / Liquidity management and treasury

Liquidity management and treasury

Total liquid assets at the end of 2017

9.3

EUR billion

Liquidity coverage ratio

173%

while minimum requirement is 80 %

From the viewpoint of Municipality Finance's liquidity investments, the year 2017 was marked by a stable but exceptional market situation. Interest rates and the credit risk premiums of issuers remained at a historically low level, making the relationship between the expected yield and risk less appealing. This was mainly caused by the asset purchase programmes of the ECB and other central banks, which overall have been pushing the ROI levels down. The ECB has announced that it will be gradually reducing its monthly bond purchases in 2018, which may lead to increased interest rates and yields in late 2018.

MuniFin's total liquid assets at the end of 2017 were EUR 9.3 billion (2016: EUR 7.5 billion). Investments in securities totalled EUR 5.8 at the end of 2017 (2016: EUR 6.5 billion) with an average credit rating of AA (2016: AA). The average maturity of the securities portfolio was 2.5 years at the end of the year (2016: 2.3).

OPTIMISED LIQUIDITY MANAGEMENT

MuniFin's treasury ensures the optimised use of total liquidity. The minimum amount of liquidity, measured by the liquidity coverage ratio (LCR), must meet the statutory requirement on a daily basis. On the other hand, the maximum amount is adjusted in line with the balance sheet total to prevent it from growing too big in relation to its own funds. In 2017, the minimum liquidity requirement for MuniFin indicated as LCR was 80 percent. At the end of 2017, MuniFin's LCR was 173% (2016: 149%).

Furthermore, in line with MuniFin's risk appetite framework, the total liquidity amount must be enough to cover uninterrupted business for at least six months. The 2017 year-end total amount of liquidity was enough to cover uninterrupted business for 12 months.

MuniFin regularly evaluates the liquidity of its investments and the eligibility of its assets as collateral on the repo markets. At the end of 2017, 88 percent of all long-term investments met the eligibility requirements of ECB.

EFFECTIVE MARKET RISK MANAGEMENT

The treasury department of Municipality Finance is responsible for the management of market risk at MuniFin in accordance with its risk policies. As a rule, the balance sheet interest rate risk position in 2017 was kept at its previous low level by applying interest rate hedging to fixed-rate debts and receivables. Short-term interest rate risk was steered by using a netting set of Euribor fixing, covering both debts and receivables.

MuniFin hedges currency risk with derivatives. The main principle is that all foreign currency denominated liabilities and assets are hedged on a trading day. Furthermore MuniFin is obligated to submit foreign currency cash collateral to the central clearing counterparty for use in foreign currency interest rate swaps. This, however does not have significant profit and loss effects.

In 2017, Municipality Finance made the decision to allocate some of its investments to socially responsible investment (SRI) targets. At the end of the year the total amount of MuniFin's responsible investments in 2017 was EUR 43 million.

In 2017, MuniFin has been putting major effort into developing balance sheet management and transfer pricing. A dedicated ALM (asset liability management) function was established in conjunction with the treasury department. The systems and operating model of the ALM function will be deployed in 2018. The objective is to have more dynamic balance sheet analysis and steering, as well as internal transfer pricing.

MANAGEMENT OF LIQUIDITY INVESTMENTS

The credit and market risks as well as the expected yield of MuniFin's long-term liquidity are diversified into asset classes and different countries. In addition to the above, the spread sensitivity of investments is controlled by changing their maturity.

In 2017, no major changes were made to the allocation of investments among the asset classes. However, outstanding long-term investments were allocated more to short-term investments due to poor expected returns. As a result, the average maturity of all investments decreased year-on-year. On the national level, MuniFin reduced the amount of investments with Canadian and Swedish issuers, among others.

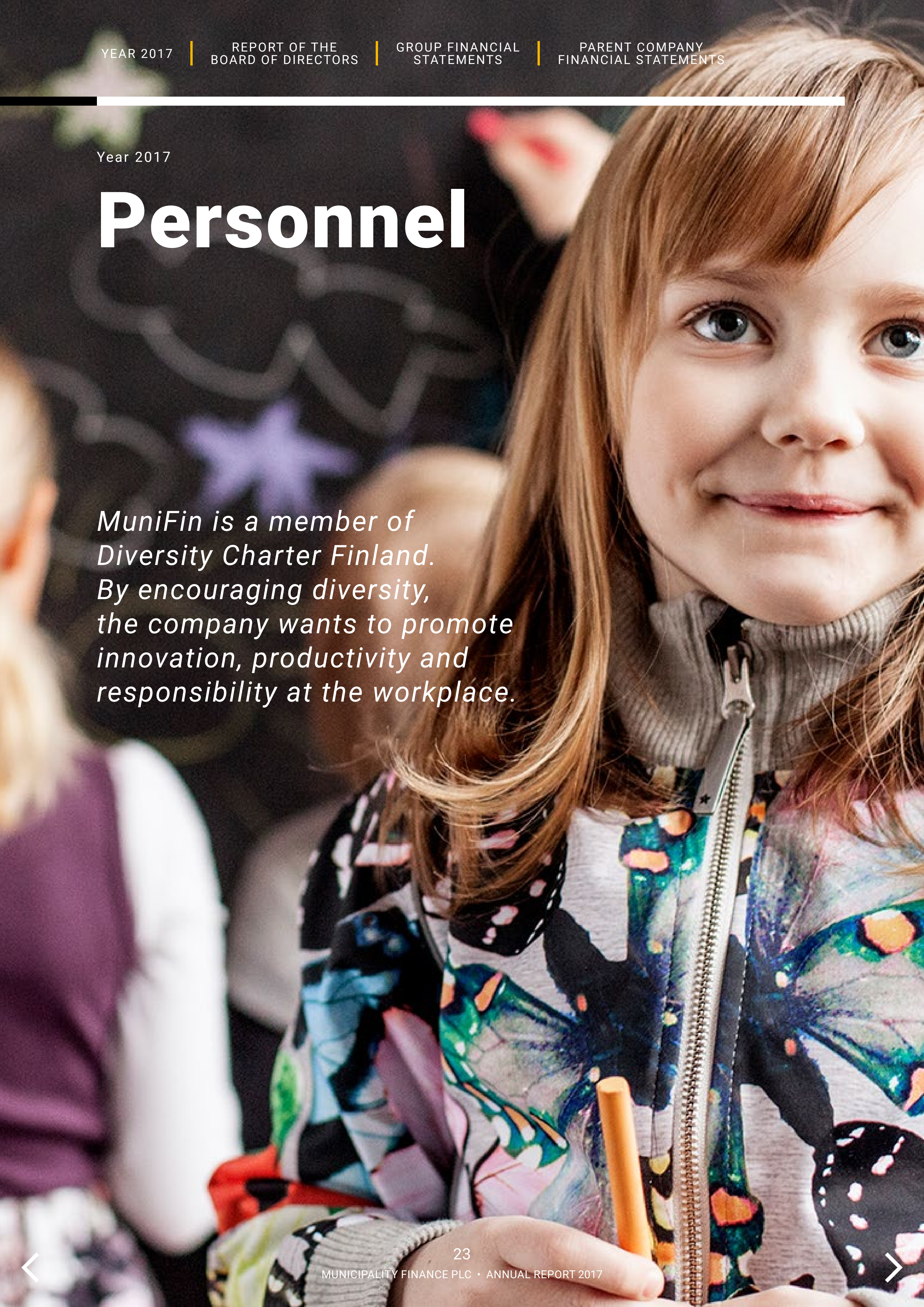
RESPONSIBLE INVESTING

In 2017, Municipality Finance made the decision to allocate some of its investments to socially responsible investment (SRI) targets. At the end of the year the total amount of MuniFin's responsible investments in 2017 was EUR 43 million. The target amount for SRI was determined on the basis of a percentage share of MuniFin's funding base for green bonds.

In its liquidity management MuniFin applies the guidelines of the company's Responsibility Policy approved by the Board of Directors. The ESG criteria is used to measure the environmental and social responsibility and governance practices of the issuers in the liquidity portfolio.

The average ESG score of all investments is compared to a benchmark index using an asset class breakdown corresponding to the company's liquidity investments. The ESG analysis of issuers is carried out by the German asset manager Union Investment. At the end of 2017, MuniFin's liquidity investments had an ESG average of 49.1, which is just under the benchmark index (49.2).

The method of calculating the ESG score used by Union Investment was changed in 2017. This prevents comparison between the ESG scores published in previous years and the ESG score for 2017. According to the calculation method used in 2017, the ESG score for 2016 was 49.9.



Year 2017

Personnel

MuniFin is a member of Diversity Charter Finland. By encouraging diversity, the company wants to promote innovation, productivity and responsibility at the workplace.

Organisation / Personnel

Personnel

Skilled and motivated staff is the most important success factor for Municipality Finance. MuniFin has succeeded in recruiting skilled professionals during a time when its staff number increased rapidly.

In the history of MuniFin, 2017 will be a record year for growth in staff numbers. At the beginning of the year, the number of employees was 106, and at the end of the year it was 134. Additional resources were recruited especially for business development, systems development, customer relationship management, reporting and risk management.

At MuniFin, significant efforts are put into the wellbeing and job satisfaction of employees. MuniFin's operations are marked with a community spirit both in the relationships between staff and customers as well as within the work community.

The most important motivating factor for MuniFin's employees is the social impact of the work they do. Other important motivating factors include having a wide-ranging job description and responsibility. MuniFin's employees find that their work environment is comfortable, open, encouraging and free of discrimination.

Increasing diversity has been defined as one of the goals for employee development at MuniFin. The distribution of MuniFin's employees by gender is almost equal parts men and women. Also the distribution of employees by age group is well balanced.

FOSTERING STAFF WELLBEING AND COMPETENCE DEVELOPMENT

Everyone at Municipality Finance is encouraged to further develop their personal competence. The situation at work and the development of own competence is assessed through annual development discussions.

MuniFin offers support to its employees in maintaining their wellbeing. In addition to comprehensive occupational healthcare services, MuniFin offers various wellbeing programmes to promote work-life balance and physical activity.

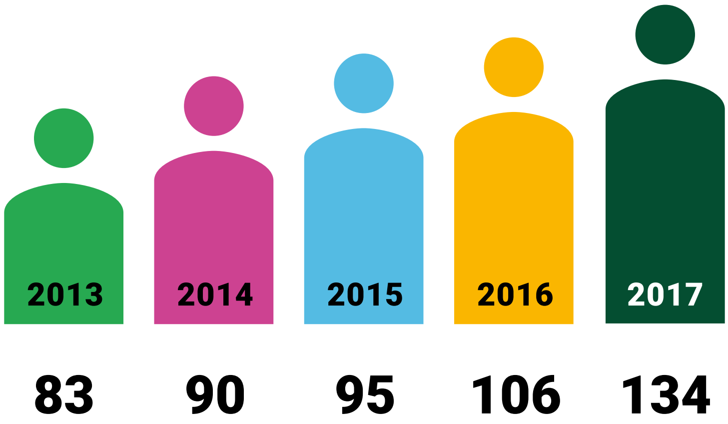
RESPONSIBILITY

Improving wellbeing at work

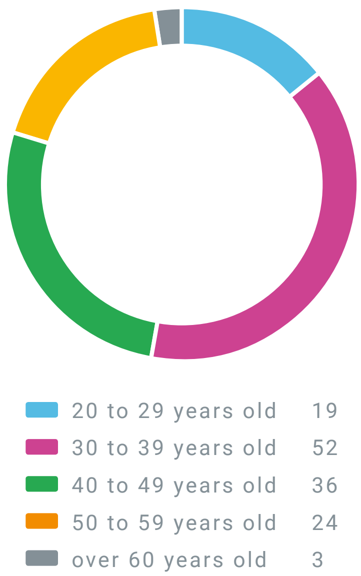
MuniFin invests strongly in the wellbeing of its employees and their job satisfaction. Offering equal opportunities to everyone at the workplace is a priority. The company's staff feel that their work is meaningful and significant for the society.

One of the key success factors for MuniFin is finding the people with the best skills to work for the company, which is why the company has set a goal of having the best possible employer brand.

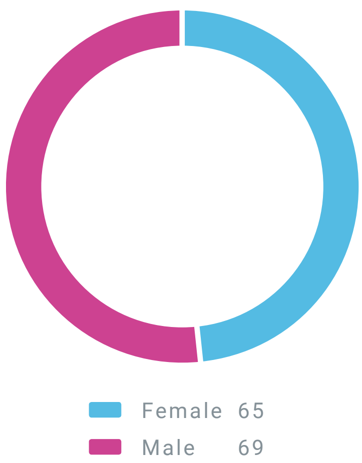
Number of employees



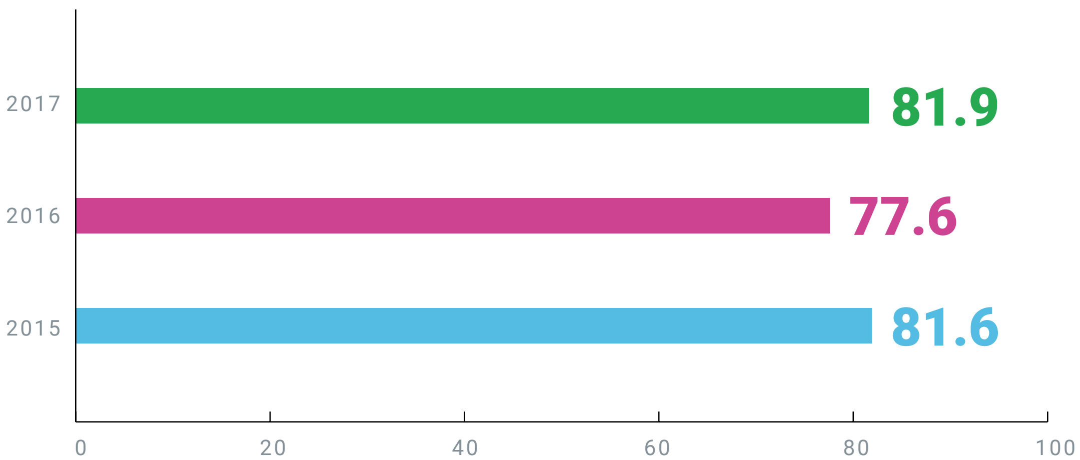
Employees by age



Employees by gender



Level of dedication



Organisation /Corporate governance

Corporate governance

Responsible business conduct is recorded in the mission statement of Municipality Finance: MuniFin's operations must be socially, economically and environmentally sustainable.

RESPONSIBILITY

Strong corporate governance

The leading principle in the work of MuniFin's employees is to ensure that all operations are conducted in a responsible way. The company's operations are guided by responsibility policy, and staff are trained to understand the principles of responsible behaviour and to identify any conflicts of interest. MuniFin's website includes a whistleblowing channel that can be used to report any suspicions of misconduct, also anonymously, if necessary.

MuniFin's operations are governed by EU-level regulations, as well as Finnish acts and decrees applicable to credit institutions. Besides legislation, MuniFin complies with the regulations and guidelines issued by European authorities and the Finnish Financial Supervisory Authority (FIN-FSA). Furthermore, where applicable, MuniFin also complies with the Governance Code of Nasdaq Helsinki for listed companies.

Since 1 January 2016, MuniFin has been under the direct supervision of the European Central Bank (ECB). The corporate governance requirements of the European Banking Authority (EBA) are strict, and meeting them provides an excellent foundation for MuniFin's operations.

SPECIFYING AND DEVELOPING THE REQUIREMENTS OF GOOD GOVERNANCE

In 2017, Municipality Finance defined the key principles of corporate responsibility. This led to the renewal of MuniFin's responsibility policy at the turn of 2017–2018. In addition to updating the policy, the policy guidelines were specified especially with regards to financing operations, and a quick guide was prepared for MuniFin's staff.

The Board of Directors of Municipality Finance is responsible for preparing MuniFin's risk management policies. 2017 saw an extensive revision of MuniFin's risk management guidelines as part of developing the risk management framework. It covers, for example, the market risk policy, credit risk policy, the risk policies for liquidity management and funding, the policy for operative risks, and the risk appetite framework.

Rather than completely changing the key principles of risk management at MuniFin, the revision of the risk appetite framework focused on providing a more detailed and extensive description of risk management practices. Strict limits and limit values have been set for different types of risks, and MuniFin fully intends to adhere to them. Any and all breaches of risk limits will be addressed immediately.

Organisation / Board of Directors

Board of Directors

According to the company's Articles of Association, the Board of Directors has a minimum of five and a maximum of eight members. The Annual General Meeting elects the members of the Board, and each member's term of office terminates at the end of the next AGM.

In accordance with the proposal of the Shareholders' Nomination Committee, the 2017 Annual General Meeting elected the following persons to the Board of Directors for the 2017–2018 term (from the end of the AGM to the end of the next AGM):

Helena Walldén, b. 1953
Chairperson of the Board of Directors
Member of the Board of Directors since 2016

Education: M.Sc. (Eng)

Primary occupation: Board professional

Other key positions of trust: -

Independence: Independent of the company and its significant shareholders

Tapani Hellstén, b. 1957
Vice Chairman of the Board of Directors
Member of the Board of Directors since 2014

Education: M.A. (Adm. Sc.)

Primary occupation: Executive Vice President, Keva

Other key positions of trust: The Service Foundation of the Deaf, chairperson of the Administrative Council; Employee's Foundation, chairperson of the Board of Directors

Independence: Independent of the company

Fredrik Forssell, b. 1968
Member of the Board of Directors since 2011

Education: M.Sc. (Econ.)

Primary occupation: CIO, Internal equity & FI, Keva

Other key positions of trust: -

Independence: Independent of the company

Minna Helppi, b. 1967
Member of the Board of Directors since 2017

Education: M.Sc. (Econ.)

Primary occupation: SVP Group Treasurer, Metso Corporation

Other key positions of trust: Rauma Oy, chairperson of the Board of Directors

Independence: Independent of the company and its significant shareholders

Teppo Koivisto, b. 1966
Member of the Board of Directors since 2011

Education: M.A. (Pol.Sc.)

Primary occupation: Head of Division, State Treasury

Other key positions of trust: Tiukula Foundation, chairperson of the Board of Directors

Independence: Independent of the company

Organisation / Board of Directors

Board of Directors

Jari Koskinen, b. 1960
Member of the Board of Directors since 2017

Education: M.A. (Pol.Sc.)

Primary occupation: Director General, Association of Finnish Local and Regional Authorities

Other key positions of trust: Finnish Consulting Group Oy, chairperson of the Board of Directors; KL-Kustannus Oy, chairperson of the Board of Directors; HPK Liiga Oy, chairperson of the Board of Directors

Independence: Independent of the company and its significant shareholders

Vivi Marttila, b. 1966
Member of the Board of Directors since 2016

Education: M.Sc. (Econ.)

Primary occupation: Mayor of the municipality of Simo

Other key positions of trust: Mehiläinen Meri-Lappi Oy, member of the Board of Directors; LocalTapiola Lappi Mutual Insurance Company, board member

Independence: Independent of the company and its significant shareholders

Tuula Saxholm, b. 1961
Member of the Board of Directors since 2013

Education: M.Sc. (Econ.)

Primary occupation: Finance Director, City of Helsinki

Other key positions of trust: Helsinki Metropolia University of Applied Sciences, member of the Board of Directors; Länsimetro Oy, member of the Board of Directors; Helsingin kaupungin asunnot Oy, member of the Board of Directors; Helsingin Leijona Oy, member of the Board of Directors; Port of Helsinki, member of the Board of Directors; chairperson of the Board of Directors of the City Financial Administration Services Corporation; Pääkaupunkiseudun Junakalusto Oy, chairperson of the Board of Directors; HYKSin kliiniset palvelut Oy, member of the Board of Directors; Kiinteistöosakeyhtiö Helsingin Tennispalatsi Oy, chairperson of the Board of Directors

Independence: Independent of the company

Organisation / Executive Management Team

Executive Management Team

The company has a CEO appointed by the Board of Directors and a Deputy to the CEO. The CEO's duty is to manage the company's operations in order to implement the resolutions made by the Board of Directors and maintain operations in line with the strategy, risk management principles and limits set by the Board of Directors. Supported by the Executive Management Team, the CEO is responsible for monitoring the effectiveness of the company's day-to-day operations (including internal control, risk management and supervision of regulatory compliance), maintaining an effective organisational structure and reporting to the Board of Directors.

Esa Kallio, b. 1963
President and CEO

At Municipality Finance since 2005

Education: M.Sc. (Econ.)

Toni Heikkilä, b. 1965
Executive Vice President,
CRO, Risk Management

At Municipality Finance since 1997

Education: M.Sc. (Finance)

Jukka Helminen, b. 1964
Executive Vice President,
Customer Finance

At Municipality Finance since 2013

Education: M.Sc. (Eng.)

Marjo Tomminen, b. 1962
Executive Vice President,
CFO, Finance

At Municipality Finance since 1992

Education: Vocational Qualification in Business and Administration MTT, EMBA

Mari Tyster, b. 1975
Executive Vice President, Legal and Governance, Deputy to the CEO

At Municipality Finance since 2009

Education: Master of Laws

From 1 March 2018, MuniFin's Executive Management Team also includes Joakim Holmström (Executive Vice President, Capital Markets) and Rainer Holm (Executive Vice President, Business Information Solutions).

Year 2017

Responsibility at MuniFin

MuniFin's decisions and actions need to be sustainable. That is in the interest of MuniFin, its stakeholders, customers, investors and the Finnish society. MuniFin is committed to support the UN Sustainable Development Goals in its everyday work.

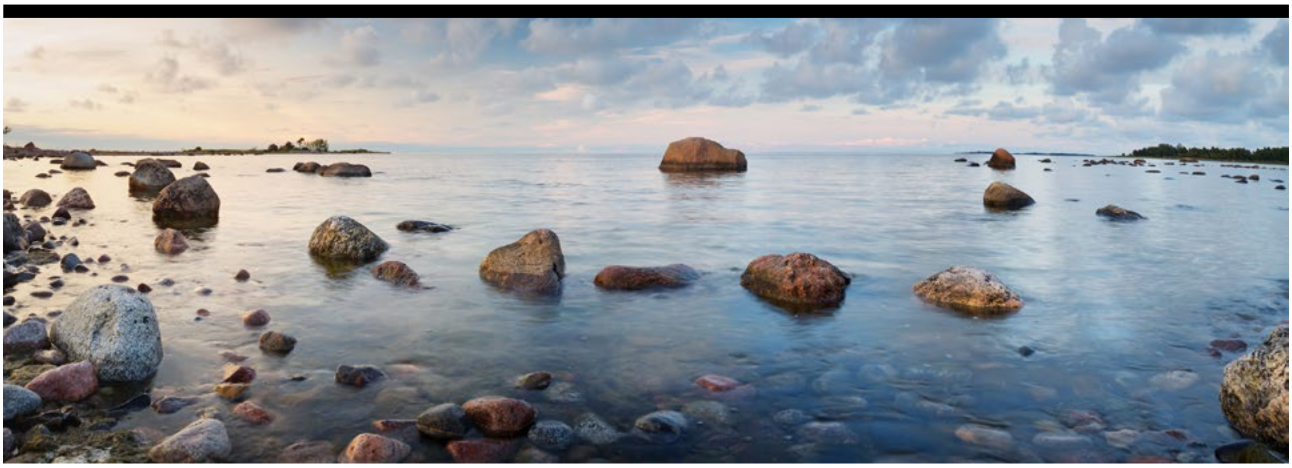
MuniFin defined the key principles and goals of corporate responsibility for its operations in 2017. The related key indicators will be published yearly in MuniFin's responsibility report. The meaning of the principles on the practical work of everyone at MuniFin has been defined specifically for each department. All the departments have defined objectives for the development of responsible practices.

MuniFin's key principles of corporate responsibility are based on a materiality analysis carried out in 2016. The results of the 2016 analysis were specified during 2017, and the specified priority areas for corporate responsibility have been validated in interviews with stakeholders, the participants of which included MuniFin's customers, investors, and government representatives.

To its customers, MuniFin is a long-term partner whose work is manifested throughout Finnish society. Responsible lending plays a key role in MuniFin's operations. MuniFin is therefore mapping the overall financial situation, investment targets and the related risks of its customers more closely as part of its day-to-day customer work. The discussions and mappings relating to risks also provide the customers with valuable support and insights.

MuniFin is a pioneer in the promotion of environmentally sustainable development in Finland. MuniFin is the first financial institution in Finland to offer green finance for environmentally friendly projects and is still the first Finnish issuer of green bonds. MuniFin uses green finance to accelerate the achievement of climate targets by municipalities. MuniFin also adheres to the Green Office programme of the WWF.

Within its own organisation, MuniFin continuously develops good governance practices. MuniFin's responsibility policy was updated at the turn of 2017–2018 cover in more detail all of MuniFin's operations. MuniFin is committed to promoting the wellbeing and diversity of its personnel. MuniFin is a member of the corporate responsibility network FIBS and its Diversity Charter Finland, as well as a member of Finland's Sustainable Investment Forum (Finsif). MuniFin also promotes the achievement of Finland's sustainable development goals through Commitment 2050 – Society's Commitment to Sustainable Development.



Year 2017

KEY PRINCIPLES OF RESPONSIBILITY AT MUNIFIN

Responsible products and services

3 GOOD HEALTH AND WELL-BEING

4 QUALITY EDUCATION

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

11 SUSTAINABLE CITIES AND COMMUNITIES

Improving wellbeing at work

SUSTAINABLE DEVELOPMENT GOALS

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

10 REDUCED INEQUALITIES

Forerunner in sustainability

SUSTAINABLE DEVELOPMENT GOALS

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

13 CLIMATE ACTION

14 LIFE BELOW WATER

15 LIFE ON LAND

Strong corporate governance

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

17 PARTNERSHIPS FOR THE GOALS

Year 2017

Tax footprint

THE STRATEGY AND OPERATING PRINCIPLES OF MUNIFIN IN TAXATION

The management of tax affairs is organised as part of the Group's financial management. The main observations and measures related to tax issues and tax risks are reported to the Board of Directors.

The Municipality Finance Group complies with the tax legislation in the payment, remittance and notification of taxes and charges. MuniFin's strategy in taxation is to support the business solutions and take taxation into account as one of the factors influencing the planning and decision-making related to the business solutions. Tax planning aims at controlling the uncertainties related to taxation and avoiding risks in interpretation. Therefore, MuniFin requests the tax authorities to provide preliminary rulings whenever necessary.

THE TAXES AND TAX-LIKE PAYMENTS PAID AND REMITTED

MuniFin acquires financing from the international capital markets but conducts business only in Finland. Therefore, MuniFin pays income taxes in full to Finland. MuniFin does not receive any income from abroad for which relevant withholding tax at the source is paid. MuniFin has no investments or operations in countries defined by the OECD as tax havens.

In 2017, the Municipality Finance Group employed 134 people, of whom 119 worked for the parent company. The Group's turnover was EUR 204.1 million and the profit before tax EUR 198.4 million. As a credit institution, MuniFin had the possibility to assign a credit loss provision in its accounting and taxation, in accordance with the Business Tax Act. The credit loss provision involves a deferred tax liability.

MuniFin's operations are mainly exempt from value-added tax. As MuniFin is unable to deduct the VAT related to purchases in its operations exempt from VAT, the VAT remains as final costs for MuniFin. MuniFin also runs leasing operations subject to VAT, for which VAT is paid and the VAT included in the purchases is deducted. The operations of MuniFin's subsidiary Inspira are subject to VAT. Inspira deducts VAT from its purchases and pays VAT for its sales. The amounts of VAT paid and remitted vary according to business volumes, and value-added taxes are not taken into account in the taxes paid and remitted.

TAXES AND TAX-LIKE PAYMENTS PAID (EUR 1,000)	2017	2016
Income tax	8,590	1,740
Employer's social security contributions	2,428	2,296
Stability fee to the EU crisis resolution fund	3,756	2,613
Total	**14,774**	**6,648**

TAXES TO BE REMITTED AND TAX-LIKE PAYMENTS PAID (EUR 1,000)	2017	2016
Withholding taxes	3,819	3,718
Employee's social security contributions	879	697
Total	**4,698**	**4,415**

Report of the Board of Directors 2017

Municipality Finance Financial Statements 1 January–31 December 2017

Content

Report of the Board of Directors

2017 IN BRIEF

- The Group's net interest income grew by 10.9% year on year, totalling EUR 228.5 million (2016: EUR 206.1 million).
- The Group's net operating profit amounted to EUR 198.4 million (2016: EUR 174.2 million). Growth over the previous year was 13.9%.
- The balance sheet total was EUR 34,738 million (2016: EUR 34,052 million). Growth compared to the end of 2016 was 2.0%.
- The Group's capital adequacy continued to strengthen, with the year-end ratio of total own funds to risk-weighted assets being 75.51% (2016: 66.89%) and the ratio of Common Equity Tier 1 (CET1) to risk-weighted assets 55.22% (2016: 46.21%).
- The leverage ratio at the end of 2017 was 3.84% (2016: 3.54%).
- The total of new loans withdrawn amounted to EUR 2,439 million (2016: EUR 2,924 million). The lending portfolio increased to EUR 21,219 million (2016: EUR 20,910 million). This represented growth of 1.5% from the end of 2016.
- The leasing portfolio stood at EUR 432 million at the end of the year (2016: EUR 286 million), showing growth of 51.0% year on year.
- Long-term funding in 2017 totalled EUR 9,557 million (2016: EUR 6,702 million). A total of EUR 9,989 million was issued in short-term debt instruments under the Euro Commercial Paper (ECP) programme (2016: EUR 7,045 million). The total amount of funding grew to EUR 30,153 million (2016: EUR 28,662 million). This represents growth of 5.2% from the end of 2016.
- At the end of 2017, total liquidity was EUR 9,325 million (2016: EUR 7,505 million). Growth compared to the end of previous year was 24.2%.
- The turnover of Municipality Finance's subsidiary Inspira was EUR 2.7 million (2016: EUR 2.2 million). Inspira's net operating profit at the end of 2017 totalled EUR 0.2 million (2016: EUR 0.1 million).

KEY FIGURES (CONSOLIDATED):	31 DEC 2017	31 DEC 2016
Net interest income (EUR million)	228.5	206.1
Net operating profit (EUR million)	198.4	174.2
New loans issued (EUR million)	2,439	2,924
New funding (EUR million)	9,557	6,702
Balance sheet total (EUR million)	34,738	34,052
Common Equity Tier 1 (CET1) (EUR million)	946	777
Tier 1 capital (T1) (EUR million)	1,293	1,124
Total own funds (EUR million)	1,293	1,124
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	55.22	46.21
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	75.51	66.89
Ratio of total own funds to risk-weighted assets, %	75.51	66.89
Leverage ratio, %	3.84	3.54
Return on equity (ROE), %	12.57	12.51
Cost-to-income ratio	0.18	0.17
Personnel	134	106

The calculation formulas for the key figures can be found on page 47. All figures presented in the Report of the Board of Directors are those of the Municipality Finance Group, unless otherwise stated. Alternative Performance Measures are reported after Calculation of key figures.

GROUP STRUCTURE

The Municipality Finance Group (hereinafter “the Group”) consists of Municipality Finance Plc (hereinafter “MuniFin” or “the company”) and Financial Advisory Services Inspira Ltd (hereinafter “Inspira”).

Municipality Finance is a financial institution owned by Finnish municipalities, Keva, and the Finnish state, providing a wide range of financing services for the local government sector and central government-subsidised housing production. The core principle of the company’s strategy is to build a better society in cooperation with its customers. MuniFin is the only financier in Finland specialising in the provision of financing for the local government sector and central government-subsidised housing production. The company aims to be the best possible financial expert for its customers, with the best insights into customer needs and ever-changing operating conditions.

Inspira is a company specialising in the provision of financial advisory services for the public sector. It offers financial advisory services for use in investment activities and the reorganisation of public sector operations.

OPERATING ENVIRONMENT IN 2017

2017 was a year of favourable trends in the Finnish and global economies. Despite the uncertainty and tension in world politics, the markets remained calm due to broad-based economic growth. Market interest rates remained at a record-low level. The extensive asset purchase programmes of the European Central Bank (ECB) strongly increased the liquidity of the markets.

In Finland, the health, social services and regional government reform, which has long been in the preparation phase and did not progress according to plan during 2017, has now been postponed by a year and is due to come into force in early 2020. Unanswered questions regarding the implementation of the reform will have a major impact on MuniFin’s customer base, which is why they may be postponing to some extent their investments in the social and healthcare service sector.

The credit ratings of Moody’s and Standard & Poor’s and their outlooks for MuniFin did not change in 2017. The credit rating of MuniFin is the same as Finland’s credit rating: Standard & Poor’s rating is AA+ and Moody’s rating is Aa1. The ratings’ outlooks are stable.

Income Statement and Statement of Financial Position

MUNICIPALITY FINANCE GROUP

The Group’s business operations remained strong during 2017. The Group’s net operating profit for the financial year amounted to EUR 198.4 million (2016: EUR 174.2 million). The profit includes EUR 11.0 million of unrealised changes in the fair value of financial items (2016: EUR 2.7 million). Of this amount, EUR 8.3 million (2016: EUR 0.1 million) was unrealised net income from securities and foreign exchange transactions. The unrealised net income from securities and foreign exchange transactions includes EUR -0.7 million of CVA and DVA adjustments (2016: EUR -1.9 million). The net income from hedge accounting amounted to EUR 2.7 million (2016: EUR 2.6 million). These value changes are related to fluctuations in interest rates, the credit risk arising from counterparties in derivative transactions (CVA), and the fluctuations of market prices of own derivative liabilities (DVA).

The Group’s net operating profit excluding unrealised fair value changes amounted to EUR 187.4 million (2016: EUR 171.5 million), with a year on year improvement of 9.3%.

Net interest income continued developing well, with growth of 10.9%. Total net interest income at the end of the financial year was EUR 228.5 million (2016: EUR 206.1 million). Growth of net interest income was positively influenced by successful funding operations and a favourable interest rate environment for MuniFin’s business operations. Net interest income includes EUR 2.4 million in commissions from the repurchase of own bonds (2016: EUR 1.2 million). In the consolidated accounts, the AT1 capital loan included in Tier 1 funds

RATING AGENCY	Long-term funding	Outlook	Short-term funding
Moody’s Investors Service	Aa1	Stable	P-1
Standard & Poor’s	AA+	Stable	A-1+

is treated as an equity instrument. The related interest expenses are not recognised through profit or loss in the consolidated accounts, but they are treated similar to dividend distribution, i.e. as a decrease in retained earnings under shareholders' equity upon realisation of payment on an annual basis.

The Group's commission expenses totalled EUR 4.1 million at the end of the year (2016: EUR 4.0 million). Operating expenses increased by 24.8% to EUR 38.8 million during 2017 (2016: EUR 31.1 million). This was mainly due to financial supervision expenses paid to the ECB and to the Financial Supervisory Authority, the contributions paid to EU-level crisis resolution funds, as well as ongoing information system projects. Administrative expenses came to EUR 22.3 million (2016: EUR 18.8 million), of which personnel expenses comprised EUR 13.6 million (2016: EUR 11.9 million). The administrative expenses increased in line with the rise in the number of staff. Depreciation of tangible and intangible assets amounted to EUR 2.0 million (2016: EUR 1.8 million). Other operating expenses were EUR 14.5 million (2016: EUR 10.5 million).

The Group's balance sheet total stood at EUR 34,738 million at the end of 2017, compared to EUR 34,052 million at the end of the previous year. During the financial year, EUR 12.6 million of interest on the AT1 equity instrument was deducted from the Group's equity, while taking account of the tax effect.

At the end of financial year 2017 MuniFin treated its subsidiary Inspira on the basis of 100% ownership of the company, as defined in the terms and conditions of the shareholder agreement. The redemption procedure for Inspira's shares owned by minority shareholders was completed in early 2018. The redemption obligation was taken into account at the time of closing the accounts, and the transaction had no fundamental effect on the financial position of MuniFin or on Inspira's business operations.

THE PARENT COMPANY

At the end of 2017, MuniFin's net interest income was EUR 212.3 million (2016: EUR 189.9 million), while its net operating profit amounted to EUR 181.9 million (2016: EUR 158.0 million). The interest expenses of EUR 16.2 million for 2017 on the AT1 capital loan, which forms part of the Additional Tier 1 capital in capital adequacy calculation, have been deducted in full from the Parent Company's net interest income (2016: EUR 16.3 million). In the Parent Company, the AT1 capital loan has been recorded under the balance sheet item Subordinated liabilities.

INSPIRA

The turnover of MuniFin's subsidiary Inspira was EUR 2.7 million for 2017 (2016: EUR 2.2 million), while its net operating profit amounted to EUR 0.2 million (2016: EUR 0.1 million).

Business

CUSTOMER FINANCE

MuniFin is the only credit institution in Finland which specialises in the provision of financing for the local government sector and central government-subsidised housing production, and is by far the largest financier for its customer base. MuniFin's customers consist of municipalities, municipal federations and municipality-controlled entities, as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). The company offers its customers versatile financing services, as well as comprehensive support for investment planning and financial management. It is by far the largest single operator in its customer segment.

The financial situation of municipalities was stronger during 2017, reducing the need for loans among municipalities. However, overall demand for financing grew from the previous year, due to the strong growth of housing construction in particular. The total volume of loan quotation requests received by MuniFin during 2017 was EUR 4,451 million (2016: EUR 4,168 million). For the most part, demand increased due to the strong growth in central government-subsidised housing production.

The total of new loans withdrawn, EUR 2,439 million, was lower than the year before (2016: EUR 2,924 million). This was particularly due to the stronger financial situation of municipalities, which kept demand for financing at a moderate level. Another factor was the tighter competition among financial institutions operating in the local government sector. Demand for financing within the local government sector may also have been influenced by the uncertainty about the effects of the health, social services and regional government reform.

At the end of the year, the long-term lending portfolio stood at EUR 21,219 million (2016: EUR 20,910 million). The year on year change to the lending portfolio was 1.5%.

The green financing concept intended for investments earmarked for environmental projects, which was launched on the markets in 2016, is still raising a great deal of interest and, by the end of 2017, more than one billion euros worth of financing had been granted for environmental projects. As a product, MuniFin's green financing is in many ways a pioneering concept in the Finnish financing markets. It is believed that it will increase investment in environmental projects in the local government sector, improve awareness of environmental matters, and promote the achievement of Finland's climate targets. Whether or not a project fits in with the green financing framework is determined by an evaluation team comprising external experts.

MuniFin has been offering leasing financing to municipalities, municipal federations and municipally owned or controlled companies since 2010. Long-term work has been carried out to maximise clarity in the service model and its pricing. Demand for leasing solutions continued to grow in 2017. Customers are particularly interested in leasing-based solutions for real estate financing. The leasing portfolio grew by 51% during the year and stood at EUR 432 million at year-end (2016: EUR 286 million).

There was also continued demand for MuniFin's short-term financing. At the end of 2017, the total value of municipal commercial paper and municipal company commercial paper programmes concluded with MuniFin was EUR 4,582 million (2016: EUR 4,368 million). The company's year-end balance sheet included EUR 749 million in such papers issued by municipalities and municipal companies (2016: EUR 973 million).

The Apollo service developed for use by MuniFin's customers in portfolio management was expanded in 2017 to cover new activities such as the management of guarantees. Additionally, use of the service for investment management is being piloted by a group of customers. More and more customers began using the Apollo service during 2017; its customer base covers all major cities in Finland.

Demand for MuniFin's subsidiary Inspira's services was high in 2017, and the company concluded a total of 117 commission agreements (2016: 123). Inspira's turnover in 2017 was EUR 2.7 million (2016: EUR 2.2 million). Its net operating profit for the financial year was EUR 0.2 million (2016: EUR 0.1 million). Inspira's commissions were particularly characterised by preparations for the effects of the health, social services and regional government reform and the preparation of public-private partnership (PPP) projects.

FUNDING AND LIQUIDITY MANAGEMENT

Liquidity remained high in the international capital markets during 2017, and MuniFin's funding operations were very successful. Extensive diversification has also made funding efficient, which makes the funding terms for MuniFin's customers competitive. MuniFin's name is widely known in the international capital markets, where investors regard it as one of the most flexible, reliable and fast-reacting partners.

MuniFin's public issues in 2017 were very successful. In 2017, MuniFin issued three benchmark bonds in total: two US dollar-denominated benchmark bonds of 1 billion each, and one EUR 1 billion benchmark bond. The timing of the benchmark bonds was excellent and they were all oversubscribed. The second-ever green bond in the history of MuniFin, set at EUR 500 million and issued in September, was oversubscribed six times over within an hour. It was the most sought after loan in the history of MuniFin and, from the issuer's perspective, it was priced very low. The issue enabled MuniFin to expand its investor base even further. Long-term funding in 2017 totalled EUR 9,557 million (2016: EUR 6,702 million). The company played an active role as an issuer in the money and capital markets during 2017. Stock and currency market trends increased the amount of early repayments of MuniFin's own bonds. The amount of CSA collaterals relating to derivative transactions changed considerably during 2017, which led to a greater need for funding.

A total of EUR 9,989 million was issued in short-term debt instruments under the Euro Commercial Paper (ECP) programme during the year (2016: EUR 7,045 million), and total funding under the programme amounted to EUR 3,833 million at the end of the year (2016: EUR 1,139 million).

Total funding at the end of 2017 was EUR 30,153 million (2016: EUR 28,662 million). Of this amount, 23% was denominated in euros (2016: 21%) and 77% in foreign currencies (2016: 79%). In total, the company issued bonds denominated in 14 different currencies in 2017 (2016: 13 currencies).

MuniFin currently acquires all of its funding from the international capital market, where the Group is a well-known, valued and active operator. In total, 318 long-term funding arrangements were made in 2017 (2016: 204).

MuniFin's funding strategy is to diversify its funding sources, which aims to ensure the continuity of its funding under all market conditions. This has been proven to be a successful approach. MuniFin has various diversification strategies: by market, geographically, by issuing bonds targeted at different investor groups, and by varying maturities. Active, long-term collaboration with investors has increased MuniFin's visibility in various markets, and investor relations are increasingly progressing towards the maintenance of key accounts.

The majority of funding is carried out as standardised issues under debt programmes, of which MuniFin uses the following:

Medium Term Note (MTN) programme	EUR 30,000 million
Euro Commercial Paper (ECP) programme	EUR 5,000 million
AUD debt programme (Kangaroo)	AUD 2,000 million

MuniFin's funding is guaranteed by the Municipal Guarantee Board, which has the same credit ratings from Moody's and Standard & Poor's as MuniFin. The Municipal Guarantee Board has granted guarantees for the debt programmes, as well as for funding arrangements outside the programmes. As a result, debt instruments issued by MuniFin are classified as zero-risk when calculating the capital adequacy of credit institutions in the EU.

The company's liquidity remained excellent during 2017. MuniFin's investment operations mostly comprise the management of funds obtained through ex ante funding. The funds are invested in liquid and highly rated financial instruments, so as to ensure business continuity under all market conditions.

According to the company's liquidity policy, its liquidity must be sufficient to cover the needs of continued undisturbed operations (including new net lending) for at least the following six months. The company invests cash collateral received on the basis of derivative collateral agreements in short-term money market investments. These investments are not taken into account when calculating the company's liquidity adequacy.

At the end of 2017, total liquidity was EUR 9,325 million (2016: EUR 7,505 million). Investments in securities totalled EUR 5,755 million (2016: EUR 6,506 million), and their average credit rating was AA (2016: AA). The average maturity of the securities portfolio was 2.5 years (2016: 2.3 years) at the end of 2017.

In addition, the company had EUR 3,570 million in other investments (2016: EUR 999 million), of which EUR 3,554 million was in central bank deposits (2016: EUR 989 million) and EUR 16 million in money market deposits in credit institutions (2016: EUR 10 million).

As of 2015, MuniFin has also monitored the ESG performance (Environmental, Social and Governance) of its investments. At the end of 2017, MuniFin's liquidity investments had an ESG average of 49.1 on a scale of 1–100 (2016: 49.9). The benchmark index is 49.2 (2016: 51.4).

Capital Adequacy

The Group's capital adequacy has remained strong and clearly above the statutory requirements and the minimum capital adequacy requirements set by the authorities.

MINIMUM CAPITAL REQUIREMENTS AND CAPITAL BUFFERS

The minimum capital adequacy is 8% and that of CET1 capital adequacy 4.5%. The capital conservation buffer requirement under the Act on Credit Institutions is 2.5%, while the additional capital requirement for other systemically important credit institutions is 0.5%, and together they increase the minimum CET1 capital adequacy to 7.5% and the overall minimum capital adequacy to 11.0%. The Financial Supervisory Authority decides on the countercyclical capital buffer requirements on a quarterly basis. In December 2017, the Financial Supervisory Authority decided not to impose a countercyclical capital buffer requirement on MuniFin. The institution-specific countercyclical capital buffer, which is determined on the basis of the geographical distrubution of exposures, is for MuniFin 0.3%. After this, the minimum requirement for CET1 capital adequacy is 7.8% and for total own funds the minimum requirement is 11.3%.

Also in December, the Financial Supervisory Authority decided to raise the additional capital requirement for other systematically important institutions on MuniFin from 0.5% to 1%. The new requirement will become effective on 1 July 2018.

31 DEC 2017	Capital requirement	Capital conservation buffer 1)	Counter-cyclical capital buffer 2)	O-SII 3)	Total capital buffers	Total	Realised 31 DEC 2017
Common Equity Tier 1 (CET1)	4.5%	2.5%	0.3%	0.5%	3.3%	7.8%	**55.2 %**
Tier 1 Capital (T1)	6.0%	2.5%	0.3%	0.5%	3.3%	9.3%	**75.5 %**
Total own funds	8.0%	2.5%	0.3%	0.5%	3.3%	11.3%	**75.5 %**

31 DEC 2017	Capital requirement	Capital conservation buffer 1)	Counter-cyclical capital buffer 2)	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	77,051	42,806	5,777	8,561	57,145	134,196
Tier 1 Capital (T1)	102,735	42,806	5,777	8,561	57,145	159,880
Total own funds	136,980	42,806	5,777	8,561	57,145	194,125

31 DEC 2016	Capital requirement	Capital conservation buffer 1)	Counter-cyclical capital buffer 2)	O-SII 3)	Total capital buffers	Total	Realised 31 DEC 2016
Common Equity Tier 1 (CET1)	4.5%	2.5%	0.3%	0.5%	3.3%	7.8%	46.2 %
Tier 1 Capital (T1)	6.0%	2.5%	0.3%	0.5%	3.3%	9.3%	66.9 %
Total own funds	8.0%	2.5%	0.3%	0.5%	3.3%	11.3%	66.9 %

31 DEC 2016	Capital requirement	Capital conservation buffer 1)	Counter-cyclical capital buffer 2)	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	75,625	42,014	4,366	8,403	54,783	130,408
Tier 1 Capital (T1)	100,833	42,014	4,366	8,403	54,783	155,616
Total own funds	134,444	42,014	4,366	8,403	54,783	189,227

1) Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Valid from 1 January 2015.

2) Act on Credit Institutions (610/2014) Sect 10:4-5 § and Capital Requirements Regulation (575/2013) and Directive (2013/36/EU; CRD IV). On 21th December 2017, the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement for credit exposures allocated to Finland. The institution-specific countercyclical capital buffer requirement is determined on the basis of the geographical distribution of the exposures. For MuniFin it is 0,3% on 31 December 2017.

3) The additional capital requirement for other systemically important institutions: Act on Credit Institutions (610/2014), Chapter 10, Section 8, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). The additional capital requirement (O-SII) imposed on MuniFin is 0.5% as per the decision of the FIN-FSA made on 6 July 2015, valid from 7 January 2016.

As part of the Supervisory Review and Evaluation Process (SREP), the European Central Bank (ECB) has imposed an additional Pillar II capital requirement of 1.5% (P2R) on MuniFin, effective from 1 January 2017. The amount of the additional capital requirement is evaluated by the ECB at least annually. The minimum level of CET1 capital adequacy is 9.3% when taking account of the P2R additional capital requirement, and the minimum level of overall capital adequacy is 12.8%. In the same connection, the ECB proposed an indicative additional Pillar II capital requirement of 4.2% (P2G). Falling below this level does not have an effect on issues such as the distribution of profit. When this indicative additional capital requirement is taken into account, the minimum level for CET1 capital adequacy at the end of 2017 is 13.5%. MuniFin's capital adequacy is many times higher than these capital requirements.

The ECB's updated additional capital requirements on MuniFin, which take effect on 1 January 2018, are 1.75% (P2R) and 4.0% (P2G). Based on the above, as of 1 January 2018, with the additional capital requirement and the indicative additional capital requirement taken into account, the new minimum for the CET1 capital adequacy is 13.55%.

KEY FIGURES FOR CAPITAL ADEQUACY

The Group's own funds totalled EUR 1,293 million at the end of 2017 (2016: EUR 1,124 million). Common Equity Tier 1 capital (CET1) totalled EUR 946 million (2016: EUR 777 million). Tier 1 capital amounted to EUR 1,293 million (2016: EUR 1,124 million). The unrealised profits from assets measured at fair value (fair value reserve) have been included in CET1 capital (transitional provision for the period 1 January 2015–31 December 2017). Common Equity Tier 1 capital includes the profit for the financial year, as the result for the financial year has been subject to a financial review by the auditors and can, therefore, be included in CET1 capital based on the permission granted by the ECB in accordance with the Capital Requirements Regulation. Adjustments due to filters applied to CET1 capital consist of MuniFin's own debt valuation adjustment (DVA) and additional value adjustments (PVA, AVA). Additionally, the planned distribution of profits has been taken into account in CET1 capital. There was no Tier 2 Capital (T2) at the end of the period under review or during the comparison year.

The assets of MuniFin's subsidiary Inspira were not taken into account in the Group's own funds because, according to the interpretation of the Finnish Financial Supervisory Authority (27 January 2016), shares that the company, according to its Articles of Association, has the right to redeem as stipulated in Chapter 3, Section 7 of the Limited Liability Companies Act (624/2006), cannot be classified as CET1 instruments.

The Parent Company's own funds totalled EUR 1,293 million at the end of 2017 (2016: EUR 1,123 million). Common Equity Tier 1 capital (CET1) totalled EUR 945 million (2016: EUR 776 million), and Tier 1 capital (T1) amounted to EUR 1 293 million (2016: EUR 1,123 million). There was no Tier 2 Capital (T2) at the end of the period under review or during the comparison year.

The ratio of the Group's total own funds to risk-weighted assets was 75.51% (2016: 66.89%). At the end of the year, CET1 capital adequacy was 55.22% (2016: 46.21%). The Parent Company's capital adequacy was 76.22% (2016: 67.11 %) and its CET1 capital adequacy was 55.71% (2016: 46.35%).

The capital adequacy management principles applied and key figures are described in the Consolidated Financial Statements, after the Report of the Board of Directors, in Note 3: "Capital adequacy management principles", and in Notes 44–48: "Capital Adequacy". The Parent Company's disclosures on capital adequacy are provided in Notes 47–50 to the Parent Company's Financial Statements. In addition to the report of the Board of Directors and the financial statements, MuniFin publishes a separate Pillar III disclosure report on capital adequacy and risk management, which is available in English on the company's website.

CONSOLIDATED OWN FUNDS (EUR 1,000)	31 DEC 2017	31 DEC 2016
Common Equity Tier 1 before adjustments	976,260	827,393
Adjustments to Common Equity Tier 1	-30,741	-50,760
COMMON EQUITY TIER 1 (CET1)	**945,519**	**776,633**
Additional Tier 1 capital before adjustments	347,454	347,454
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,454**	**347,454**
TIER 1 CAPITAL (T1)	**1,292,973**	**1,124,086**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**-**
TOTAL OWN FUNDS	**1,292,973**	**1,124,086**

PARENT COMPANY OWN FUNDS (EUR 1,000)	31 DEC 2017	31 DEC 2016
Common Equity Tier 1 before adjustments	975,532	826,865
Adjustments to Common Equity Tier 1	-30,875	-50,865
COMMON EQUITY TIER 1 (CET1)	**944,658**	**776,000**
Additional Tier 1 capital before adjustments	347,916	347,426
Adjustments to Additional Tier 1 capital	-	-
ADDITIONAL TIER 1 CAPITAL (AT1)	**347,916**	**347,426**
TIER 1 CAPITAL (T1)	**1,292,574**	**1,123,426**
Tier 2 capital before adjustments	-	-
Adjustments to Tier 2 capital	-	-
TIER 2 CAPITAL (T2)	**-**	**-**
TOTAL OWN FUNDS	**1,292,574**	**1,123,426**

CONSOLIDATED KEY FIGURES FOR CAPITAL ADEQUACY	31 DEC 2017	31 DEC 2016
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	55.22	46.21
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	75.51	66.89
Ratio of total own funds to risk-weighted assets, %	75.51	66.89

PARENT COMPANY KEY FIGURES FOR CAPITAL ADEQUACY	31 DEC 2017	31 DEC 2016
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	55.71	46.35
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	76.22	67.11
Ratio of total own funds to risk-weighted assets, %	76.22	67.11

THE LEVERAGE RATIO AND LIQUIDITY COVERAGE RATIO

A proposal concerning the leverage ratio is currently under consideration at EU level. The leverage ratio of MuniFin at the end of 2017 was 3.84% (2016: 3.54%), calculated using currently valid calculation principles.

The liquidity coverage ratio (LCR) was 173% (2016: 149%). This clearly exceeds the regulatory requirement of 80% at the time of closing the accounts. The requirement will gradually increase in such a manner that, as of 1 January 2018, in order to comply with the capital adequacy regulations, the LCR must be 100% or over.

MuniFin is also preparing for the Net Stable Funding Ratio (NSFR), which is being made ready at EU level and will not take effect until sometime in 2020.

Risk Management

There were no material changes in the company's risk exposure in 2017. The company's Board of Directors assures that the risk management systems in place are adequate with respect to the Group's profile and strategy. Risks remained within the set limits during the financial year and, according to the company's assessment, risk management met the requirements set for it. In addition, the Board of Directors assures that, to the best of its knowledge, the information provided in the report of the Board of Directors and financial statements gives a true and fair account at the time of closing the accounts and of developments during the financial year as regards the risk exposures of credit institutions.

The risk management principles and the Group's risk exposure are described in Note 2 to the Consolidated Financial Statements. In addition to the report of the Board of Directors and the financial statements, MuniFin publishes a separate Pillar III disclosure report which is available in English on the company's website.

Governance

In addition to corporate legislation, MuniFin complies with the governance requirements of the Finnish Act on Credit Institutions. The company's governance policy is described in more detail on the company's website. Upon the publication of the Annual Report, MuniFin publishes a Corporate Governance Statement on its website, pursuant to Chapter 7, Section 7 of the Finnish Securities Market Act: The Statement is separate from this Report of the Board of Directors and includes a description of the main features of the internal audit and risk management systems pertaining to the financial reporting process. The statement also includes the governance descriptions required by the Act on Credit Institutions and information on how the company complies with the Finnish Corporate Governance Code for listed companies, published by the Finnish Securities Market Association. Since MuniFin is exclusively an issuer of listed bonds, and since its shares are not subject to public trading, it is not appropriate to directly apply this Code with respect to MuniFin. However, the company has used the Corporate Governance Code as the basis for preparing its own internal Corporate Governance Policy.

ANNUAL GENERAL MEETING

The Annual General Meeting of MuniFin was held on 23 March 2017. The AGM confirmed the financial statements for 2016 and discharged the members of the Board of Directors and the CEO from liability for the financial year 2016. In addition, the AGM adopted the proposal of the Board of Directors not to distribute a dividend and to retain the distributable funds of EUR 61,496,269.28 in equity.

Based on the proposal of the Shareholders' Nomination Committee, the AGM appointed the Board of Directors for the 2017–2018 term of office (from the 2017 AGM to the end of the 2018 AGM). The AGM also adopted the proposal of the Shareholders' Nomination Committee on the remuneration of Board members.

In addition, the AGM decided to amend MuniFin's Articles of Association so that the age limitation applied to members to be elected to the Board was removed.

The meeting also elected KPMG Oy Ab as the auditor of the company, with Marcus Tötterman, APA, as the principal auditor. Marcus Tötterman was also the principal auditor in the previous financial year.

THE BOARD OF DIRECTORS

At the Annual General Meeting of 23 March 2017, the Shareholders' Nomination Committee made a proposal to the meeting regarding the Board members to be elected for the term beginning at the end of the 2017 AGM and concluding at the end of the following AGM. The AGM elected the following members to the Board of Directors: Helena Walldén (Chair), Tapani Hellstén (Vice Chair), Fredrik Forssell, Teppo Koivisto, Vivi Marttila, Tuula Saxholm, Minna Helppi and Jari Koskinen.

In order to organise its work as efficiently as possible, the Board of MuniFin has established Audit, Risk and Remuneration Committees for the assistance and preparation of matters.

The members of the Audit Committee at the end of the financial year were Tuula Saxholm (Chair), Jari Koskinen and Vivi Marttila. The members of the Risk Committee at the end of the financial year were Fredrik Forssell (Chair), Minna Helppi and Teppo Koivisto. The members of the Remuneration Committee at the end of the financial year were Helena Walldén (Chair), Tapani Hellstén and Teppo Koivisto.

From the 2016 AGM to the 2017 AGM, the members of the Board of Directors were: Helena Walldén (Chair), Tapani Hellstén (Vice Chair), Fredrik Forssell, Teppo Koivisto, Sirpa Louhevirta, Vivi Marttila, Tuula Saxholm and Juha Yli-Rajala.

The operations of the Board of Directors and its committees are described in more detail on the company's website.

PERSONNEL

At the end of 2017, the MuniFin Group had 134 employees (2016: 106), of whom 119 were in the Parent Company (2016: 90). The significant increase in the number of employees is due to changes in the operating environment and customer needs, as well as the need created by banking regulations to develop the company's governance and processes. New employees have been hired for almost all of the company's functions, including customer service, business development, administrative services, IT, finance and risk management. The wages and salaries and other remuneration paid to personnel totalled EUR 11.0 million in the Group (2016: EUR 9.5 million).

Until 22 August 2017, the President and CEO of MuniFin was Pekka Averio. On 22 August 2017, Averio and the Board of Directors of MuniFin agreed that Averio would resign from his position as the President and CEO of the company and Deputy to the CEO Esa Kallio would be appointed Interim President and CEO of MuniFin. In addition to being Interim President and CEO, Esa Kallio is the head of the company's Capital Markets function. After the resignation of Pekka Averio, MuniFin immediately initiated a call for applications for the position of President and CEO, which was ongoing when this report of the Board of Directors was drawn up. In addition to the President and CEO, the other members of the Executive Management Team are Toni Heikkilä (CRO, EVP, Risk Management), Jukka Helminen (EVP, Customer Finance), Marjo Tomminen (CFO, EVP, Finance) and Mari Tyster (EVP, Legal and Compliance).

SALARIES AND REMUNERATION

The remuneration paid to the management and employees of MuniFin consists of fixed remuneration (base salary and fringe benefits) and a variable element based on the conditions of the remuneration scheme. The principles for the remuneration scheme are confirmed by the Board of Directors, and they are reviewed on an annual basis. The Remuneration Committee advises the Board of Directors on remuneration-related matters. For more information on salaries and remuneration, please refer to Note 29: "Salaries and Remuneration", and to the Remuneration Report for 2017, which is published as a separate document from the report of the Board of Directors and the financial statements, and is available on the company's website.

INTERNAL AUDIT

The internal audit function is outsourced to Deloitte & Touche Ltd, which reports directly to the Board of Directors and its Audit Committee. Internal audit is tasked with monitoring the reliability and accuracy of MuniFin's financial and other management information. Other tasks include ensuring that the company has sufficient and appropriately organised processes, including the supporting manual and IT systems, for carrying out its operations, and that the risks associated with the operations are adequately managed.

Share Capital and Shareholders

At the end of the 2017 financial year, MuniFin had paid share capital registered in the Trade Register to the amount of EUR 43,008,044.20 million, and the number of shares was 39,063,798. The company has two series of shares (A and B), with equal voting and dividend rights. Each share confers one vote at the Annual General Meeting.

At the end of 2017, MuniFin had 278 shareholders (31 Dec 2016: 278).

10 LARGEST SHAREHOLDERS 31 DEC 2017

		No. Of shares	Per cent
1.	Keva	11,975,550	30.66%
2.	Republic of Finland	6,250,000	16.00%
3.	City of Helsinki	4,066,525	10.41%
4.	City of Espoo	1,547,884	3.96%
5.	VAV Asunnot Oy (City of Vantaa)	963,048	2.47%
6.	City of Tampere	919,027	2.35%
7.	City of Oulu	903,125	2.31%
8.	City of Turku	615,681	1.58%
9.	City of Kuopio	592,303	1.52%
10.	City of Lahti	537,926	1.38%

The amounts of shares presented in the above table do not include any shares owned by the Group companies of the listed shareholders.

Events After the Reporting Period

The company's Board of Directors is not aware of any events having taken place after the end of the financial year that would have a material effect on the company's financial situation.

Outlook for 2018

The positive trend in the global economy and capital markets is expected to continue and interest rates to remain low. The gradual reduction of the ECB's asset purchase programmes may begin in late 2018, but its controlled implementation is unlikely to have any major effects on the markets. The effects of Brexit have so far been minor, but it may have significant effects on Europe's economic development in 2018.

From the perspective of Finnish local government finances, the outlook for 2018 is still good. Many growth centres, in particular, have a solid financial position, and housing construction is also expected to remain solid.

In a good economic situation, MuniFin's customers have varying financing needs. A good overall economic situation may keep demand for financing at a moderate level, but it may also encourage customers to make new investments.

The health, social services and regional government reform is still under preparation; evaluating its overall effects on MuniFin's customer base or the company's own operations is challenging. The Finnish Government's proposal for the health, social services and regional government reform is still pending after being returned for further preparation in 2017. The proposal is expected to be submitted to Parliament for consideration in the spring of 2018. The reform is not currently evaluated to have a fundamental impact on MuniFin's operating volumes in 2018. MuniFin is actively monitoring the plans for the reform.

MuniFin aims to offer its customers solutions that generate more added value, and utilise in-depth information on the customer's own situation and development trends within the sector. For this reason, in 2018, the company will put major effort into improving customer service, the service offering and systems in order to further enhance its efficiency and operations, as well as to digitalize its services. The company will also continue its long-term and systematic efforts to ensure that all of its operations comply with the principles of corporate responsibility.

MuniFin anticipates that costs will be higher than in 2017 due to an increase in the amount of personnel, investments in information systems and increases in fees and contributions to the authorities. Considering the previously described changes in the operating environment and assuming that there will be no significant change in interest rates compared to market expectations, the profitability of MuniFin's operations is expected to remain at a good level in 2018. The performance of the financial markets and the IFRS 9 standard introduced in the beginning of 2018 might increase PnL volatility through unrealized gains and losses of financial instruments.

The estimates presented in this financial statements are based on the current outlook of the operating environment and business.

Proposal from the Board of Directors Concerning Profit for the Financial Year 2017

Municipality Finance Plc has distributable funds of EUR 95,456,652.15, of which the profit for the financial year totalled EUR 33,960,382.87.
The Board of Directors proposes to the Annual General Meeting that
- EUR 0.16 per share be paid in dividends, totalling EUR 6,250,207.68, and that
- the distributable funds of EUR 89,206,444.47 be retained in equity.

The result for the financial year is good, and the Board of Directors considers the payment of a moderate dividend to be a well-reasoned decision. In recent years, the company has been preparing for the anticipated tightening of banking regulation related capital ratio requirements, the leverage ratio requirement in particular. Own funds have been strengthened with retained earnings and the issue of an AT1 loan. At the end of 2017, the company's leverage ratio was 3.84%. The effective date for the leverage ratio requirement has not yet been finalised, but the company currently fulfils the anticipated leverage ratio requirement of 3%. The Board of Directors estimates that the moderate distribution of dividends will not place the fulfilment of the capital requirements or the company's liquidity in jeopardy. MuniFin clearly fulfils all the prudential requirements set for it.

Dividends will be paid to shareholders who are recorded in the company's list of shareholders on 4 April 2018. The Board of Directors proposes that the dividends be paid on 9 April 2018.

No events have taken place since the end of the financial year that would have a material effect on the company's financial position. The company's liquidity is solid and, in the Board's opinion, the proposed distribution of profits does not jeopardise the company's ability to pay.

THE GROUP'S DEVELOPMENT

	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013
Turnover (EUR million)	204.1	183.7	204.1	222.0	196.8
Net interest income (EUR million)	228.5	206.1	172.2	160.0	149.5
% of turnover	112.0	112.2	84.4	72.1	76.0
Net operating profit (EUR million)	198.4	174.2	151.8	144.2	141.3
% of turnover	97.2	94.8	74.4	64.9	71.8
Cost-to-income ratio	0.18	0.17	0.16	0.15	0.15
Lending portfolio (EUR million)	21,219	20,910	20,088	19,205	17,801
Total funding acquired (EUR million)	30,153	28,662	28,419	26,616	23,108
Balance sheet total (EUR million)	34,738	34,052	33,889	30,009	26,156
Return on equity (ROE), %	12.57	12.51	14.84	21.66	30.58
Return on assets (ROA), %	0.46	0.41	0.38	0.41	0.48
Equity ratio, %	3.86	3.48	3.08	1.98	1.80
Common Equity Tier 1 (CET1) (EUR million)	945.5	776.6	686.3	556.4	-
Tier 1 capital (EUR million)	1,293.0	1,124.1	1,033.8	557.2	454.2
Total own funds (EUR million)	1,293.0	1,124.1	1,068.8	623.1	511.5
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	55.22	46.21	41.49	29.94	-
Ratio of Tier 1 capital (Tier 1) to risk-weighted assets, %	75.51	66.89	62.49	29.98	35.42
Ratio of total own funds to risk-weighted assets, %	75.51	66.89	64.61	33.53	39.88
Leverage ratio, %	3.84	3.54	3.15	1.8	1.7
Personnel	134	106	95	90	83

The consolidated key figures for capital adequacy for 2017, 2016, 2015 and 2014 have been calculated in accordance with the EU Capital Requirements Regulation effective from 1 January 2014.

Calculation of key figures

TURNOVER

Interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income

COST-TO-INCOME RATIO

Commission expenses + administrative expenses + depreciation + other operating expenses
___
Net interest income + commission income + net income from securities and foreign exchange transactions + net income from available-for-sale financial assets + net income from hedge accounting + other operating income

RETURN ON EQUITY (ROE), %

Net operating profit - taxes
___
Equity and non-controlling interest (average of values at the beginning and end of the year) * 100

RETURN ON ASSETS (ROA), %

Net operating profit - taxes
___
Average balance sheet total (average of values at the beginning and end of the year) * 100

EQUITY RATIO, %

Equity and non-controlling interest
___
Balance sheet total * 100

RATIO OF COMMON EQUITY TIER 1 (CET1) TO RISK-WEIGHTED ASSETS, %

Common Equity Tier 1 (CET1)
___
Risk-weighted assets * 100

RATIO OF TIER 1 CAPITAL TO RISK-WEIGHTED ASSETS, %

Tier 1 capital
___
Risk-weighted assets * 100

RATIO OF TOTAL OWN FUNDS TO RISK-WEIGHTED ASSETS, %

Total own funds
___
Risk-weighted assets * 100

LEVERAGE RATIO, %

Tier 1 capital
___
Total exposure * 100

LENDING PORTFOLIO

Loans and advances to the public and public sector entities – Leasing receivables

Alternative Performance Measures

The Alternative Performance Measures required by the European Securities and Markets Authority (ESMA) are presented to illustrate the financial performance of business operations and to improve comparability between reporting periods.

FIGURES ARE IN MILLION EUR.	2017	2016
Interest income (incl. Leasing)	191.4	180.5
Commission income	3.2	2.7
Net income from securities and foreign exchange transactions	6.2	-1.8
Net income from available-for-sale financial assets	0.5	-0.5
Net income from hedge accounting	2.7	2.6
Other operating income	0.1	0.1
Turnover	**204.1**	**183.7**
Commission expenses	4.1	4.0
Administrative expenses	22.3	18.8
Depreciation	2.0	1.8
Other operating expenses	14.5	10.5
Costs	**42.9**	**35.1**
Net interest income	228.5	206.1
Commission income	3.2	2.7
Net income from securities and foreign exchange transactions	6.2	-1.8
Net income from available-for-sale financial assets	0.5	-0.5
Net income from hedge accounting	2.7	2.6
Other operating income	0.1	0.1
Income	**241.3**	**209.4**
Liabilities to credit institutions	3,902	5,362
Liabilities to the public and public sector entities	647	873
Debt securities issued	26,304	24,584
Total	30,853	30,819
- CSA-collateral (received)	-700	-2,158
Total funding acquired	**30,153**	**28,662**

FIGURES ARE IN MILLION EUR.	2017	2016
Net operating profit	198.4	174.2
Taxes	-39.7	-34.9
Equity and non-controlling interest (average of values at the beginning and end of the year)	1,261.9	1,113.9
Return on equity, % (ROE)	**12.57 %**	**12.51 %**
Net operating profit	198.4	174.2
Taxes	-39.7	-34.9
Average balance sheet total (average of values at the beginning and end of the year)	34,395.2	33,970.5
Return on assets, % (ROA)	**0.46 %**	**0.41 %**
Equity	1,339.4	1,184.3
Non-controlling interest	-	0.1
Balance sheet total	34,738.1	34,052.2
Equity ratio, %	**3.86 %**	**3.48 %**
Common Equity Tier 1 (CET1)	945.5	776.6
Risk-weighted assets	1,712.3	1,680.5
Ratio of Common Equity Tier 1 to risk-weighted assets, %	**55.22 %**	**46.21 %**
Tier 1 capital	1,293.0	1,124.1
Risk-weighted assets	1,712.3	1,680.5
Ratio of Tier 1 capital to risk-weighted assets, %	**75.51 %**	**66.89 %**
Total own funds	1,293.0	1,124.1
Risk-weighted assets	1,712.3	1,680.5
Ratio of total own funds to risk-weighted assets, %	**75.51 %**	**66.89 %**
Tier 1 capital	1,293.0	1,124.1
Total exposure	33,635.7	31,738.0
Leverage ratio, %	**3.84 %**	**3.54 %**

Group financial statement 2017

Consolidated statement of financial position

(EUR 1,000)	Note	31 DEC 2017	31 DEC 2016
ASSETS			
Cash and balances with central banks	(8)	3,554,182	988,949
Loans and advances to credit institutions	(9)	1,251,391	438,811
Loans and advances to the public and public sector entities		21,650,847	21,195,739
Debt securities	(10)	6,494,234	7,469,437
Shares and participations	(11)	9,662	9,695
Derivative contracts	(7, 12)	1,433,318	3,634,302
Intangible assets	(13, 15)	10,196	6,776
Tangible assets	(14, 15)	2,594	2,462
Other assets	(16)	157,862	62,946
Accrued income and prepayments	(17)	173,853	243,068
TOTAL ASSETS	(4, 5, 6)	**34,738,139**	**34,052,186**

LIABILITIES AND EQUITY

LIABILITIES			
Liabilities to credit institutions	(19)	3,902,480	5,362,317
Liabilities to the public and public sector entities		646,558	872,919
Debt securities issued	(20)	26,303,961	24,584,169
Derivative contracts	(7, 12)	2,216,034	1,676,859
Other liabilities	(21)	2,587	4,444
Accrued expenses and deferred income	(22)	124,574	194,860
Deferred tax liabilities	(18)	202,522	172,185
TOTAL LIABILITIES	(4, 5, 6)	**33,398,716**	**32,867,753**

EQUITY AND NON-CONTROLLING INTEREST			
Share capital	(23)	42,583	42,583
Reserve fund	(23)	277	277
Fair value reserve	(23)	28,944	19,519
Reserve for invested non-restricted equity	(23)	40,366	40,366
Retained earnings	(23)	879,799	734,107
Total equity attributable to parent company equity holders	(23)	**991,969**	**836,852**
Non-controlling interest	(23)	**-**	**127**
Other equity instruments issued	(23)	**347,454**	**347,454**
TOTAL EQUITY AND NON-CONTROLLING INTEREST		**1,339,422**	**1,184,433**
TOTAL LIABILITIES AND EQUITY	(4, 5, 6)	**34,738,139**	**34,052,186**

Consolidated income statement

(EUR 1,000)	Note	1 JAN - 31 DEC 2017	1 JAN - 31 DEC 2016
Interest income	(30)	191,360	180,503
Interest expense	(30)	37,186	25,625
NET INTEREST INCOME	(30)	**228,546**	**206,128**
Commission income	(31)	3,245	2,738
Commission expense	(32)	-4,071	-4,026
Net income from securities and foreign exchange transactions	(33, 34)	6,196	-1,759
Net income from available-for-sale financial assets	(35)	494	-468
Net income from hedge accounting	(36)	2,655	2,587
Other operating income	(37)	134	139
Administrative expenses	(38)	-22,343	-18,820
Depreciation and impairment on tangible and intangible assets	(15)	-1,974	-1,818
Other operating expenses	(39)	-14,495	-10,451
Impairments on loans and other receivables	(40)	0	-
NET OPERATING PROFIT		**198,386**	**174,250**
Income tax expense	(42)	-39,721	-34,882
PROFIT FOR THE PERIOD		**158,665**	**139,367**
Profit attributable to:			
Equity holders of the parent company		158,665	139,342
Non-controlling interest		-	26

Statement of comprehensive income

(EUR 1,000)	Note	1 JAN - 31 DEC 2017	1 JAN - 31 DEC 2016
Profit for the period		158,665	139,367
Components of other comprehensive income			
Items to be reclassified to profit or loss in subsequent periods			
Available-for-sale financial assets (fair value reserve):			
Net change in fair value		11,644	10,281
Net amount transferred to profit or loss	(35)	137	-98
IAS 39 reclassification adjustment	(10)	-	24
Taxes related to components of other comprehensive income		-2,356	-2,041
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**168,090**	**147,533**
Total comprehensive income attributable to:			
Equityholders of the parent company		168,090	147,507
Non-controlling interest		-	26

Consolidated statement of cash flows

(EUR 1,000)	1 JAN - 31 DEC 2017	1 JAN - 31 DEC 2016
CASH FLOW FROM OPERATING ACTIVITIES	**2,587,445**	**-903,395**
Net change in long-term funding	1,598,929	471,015
Net change in short-term funding	2,776,446	-101,832
Net change in long-term loans	-566,163	-915,040
Net change in short-term loans	223,584	142,736
Net change in investments	678,585	-576,223
Net change in collaterals	-2,361,837	-84,168
Interest on assets	98,337	130,574
Interest on liabilities	160,533	51,229
Other income	39,193	32,318
Payments of operating expenses	-59,436	-56,335
Taxes paid	-725	2,332
CASH FLOW FROM INVESTING ACTIVITIES	**-5,442**	**-2,845**
Acquisition of tangible assets	-745	-794
Acquisition of intangible assets	-4,697	-2,051
CASH FLOW FROM FINANCING ACTIVITIES	**-15,750**	**-42,989**
Change in subordinated liabilities	-	-35,000
Interest on AT1 capital loan and subordinated liabilities and other profit distribution	-15,750	-7,989
CHANGE IN CASH AND CASH EQUIVALENTS	**2,566,253**	**-949,229**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**996,480**	**1,945,709**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**3,562,733**	**996,480**

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Cash and balances with central banks	3,554,182	988,949
Loans and advances to credit institutions	8,551	7,530
TOTAL CASH AND CASH EQUIVALENTS	**3,562,733**	**996,480**

Consolidated statement of changes in equity

(EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total	Non-controlling interest	Other equity instruments issued	Total equity
	Total equity attributable to parent company equity holders								
EQUITY AT 31 DECEMBER 2015	**42,583**	**277**	**11,354**	**40,366**	**601,065**	**695,645**	**216**	**347,454**	**1,043,314**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-6,300	**-6,300**	-	-	-6,300
Dividends paid for 2015	-	-	-	-	-	**-**	-114	-	-114
Profit for the period	-	-	-	-	139,342	**139,342**	26	-	139,367
Components of other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods									
Available-for-sale financial assets (fair value reserve):									
Net change in fair value	-	-	10,281	-	-	**10,281**	-	-	10,281
Net amount transferred to profit or loss	-	-	-98	-	-	**-98**	-	-	-98
IAS 39 reclassification adjustment	-	-	24	-	-	**24**	-	-	24
Taxes related to components of other comprehensive income	-	-	-2,041	-	-	**-2,041**	-	-	-2,041
EQUITY AT 31 DECEMBER 2016	**42,583**	**277**	**19,519**	**40,366**	**734,107**	**836,852**	**127**	**347,454**	**1,184,433**
Interest paid on Additional Tier 1 capital loan	-	-	-	-	-12,600	**-12,600**	-	-	-12,600
Dividends paid for 2016	-	-	-	-	-	**-**	-	-	-
Acquisition of subsidiary shares	-	-	-	-	-373	**-373**	-127	-	-500
Profit for the period	-	-	-	-	158,665	**158,665**	-	-	158,665
Components of other comprehensive income									
Items to be reclassified to profit or loss in subsequent periods									
Available-for-sale financial assets (fair value reserve):									
Net change in fair value	-	-	11,644	-	-	**11,644**	-	-	11,644
Net amount transferred to profit or loss	-	-	137	-	-	**137**	-	-	137
IAS 39 reclassification adjustment	-	-	-	-	-	**-**	-	-	-
Taxes related to components of other comprehensive income	-	-	-2,356	-	-	**-2,356**	-	-	-2,356
EQUITY AT 31 DECEMBER 2017	**42,583**	**277**	**28,944**	**40,366**	**879,799**	**991,969**	**-**	**347,454**	**1,339,422**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE STATEMENT OF FINANCIAL POSITION AND OTHER NOTES

NOTES TO THE INCOME STATEMENT

CAPITAL ADEQUACY

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

GENERAL INFORMATION ON THE GROUP

Municipality Finance Group consists of Municipality Finance Plc (referred to as MuniFin or the company) and Financial Advisory Services Inspira Ltd (Inspira or the subsidiary). The Group's parent company is a Finnish public limited liability company established under Finnish legislation and domicile in Helsinki. Its registered address is Jaakonkatu 3 A, 00100 Helsinki. The subsidiary's domicile is Helsinki and registered address Jaakonkatu 3 A, 00100 Helsinki. A copy of the consolidated financial statements is available online at www.munifin.fi or from the Group's parent company at Jaakonkatu 3 A, 00100 Helsinki.

The Board of Directors of MuniFin approved these financial statements for publication at its meeting on 14 February 2018. According to the Finnish Limited Liability Companies Act, shareholders may accept or reject the financial statements at the Annual General Meeting held after the publication. The Annual General Meeting may also decide to alter the financial statements.

BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and in compliance with IAS and IFRS and the SIC and IFRIC interpretations in force on 31 December 2017. International Financial Reporting Standards refer to the standards and their interpretations approved for application in the EU in accordance with the procedure stipulated in EU Regulation (EC) No. 1606/2002 and embodied in the Finnish Accounting Act and the decrees enacted under it. In addition, the notes to the consolidated financial statements comply with the requirements of the Finnish accounting and corporate legislation complementing the IFRS requirements.

The consolidated financial statements have been prepared under historical cost convention, except for financial assets and liabilities recorded at fair value through profit or loss, available-for-sale financial assets, derivative contracts and hedged items in fair value hedge accounting for the risk hedged.

Capital adequacy information in compliance with Part Eight of the EU Capital Requirements Regulation (EU No. 575/2013) is presented in a Pillar III report which is a separate report from the report of the Board of Directors and the financial statements. In preparing the financial statements under IFRS, the Group management is required to make certain estimates and use judgement in the application of the accounting policies. The section "Accounting policies requiring management judgement and key uncertainty factors related to estimates" under "Summary of significant accounting policies" provides information on the items in which the figures presented may be most affected by management judgement or uncertainty factors.

The Group's functional currency is the euro and the notes to the financial statements are presented in thousands of euros. All figures in the notes have been rounded, so the total of individual figures may differ from the total figure presented.

BASIS OF CONSOLIDATION

The consolidated financial statements contain the financial statements of MuniFin, the parent company, and Inspira, a subsidiary directly owned by it. Inter-company share ownership has been eliminated by using the acquisition method. Intra-group business transactions as well as internal receivables and liabilities have been eliminated. The allocation of the profit for the financial year to the parent company and non-controlling interest is presented in the income statement. Non-controlling interest is presented in the statement of financial position as a separate item under "Equity". In February 2018 MuniFin redeemed all shares held by minority shareholders of its subsidiary, Inspira. After the redemption, MuniFin owns 100 % of Inspira. The redemption is related to the shareholders' agreement, which expired in 2017, and MuniFin has already accounted for these changes in the financial statements of 31 Dec 2017.

SEGMENT REPORTING

MuniFin Group's line of business is credit institution operations and providing financial services. The Group operates in a single segment, which also forms the basis of reporting to the Group's chief operating decision maker. Group-level information pursuant to IFRS 8 with respect to information on products and services are presented in Note 30. Interest income and expense and 31. Commission income. The Group has not broken down income or assets based on geographical areas due to operating in Finland only. The company regularly monitors the development of the lending portfolio by customer and the proportion of interest paid by each customer of the total interest income. The largest cities measured by population and non-profit companies focused on rental housing development are the largest borrowers. One customer group accumulates over 10% of company's total interest income.

TRANSLATION OF FOREIGN CURRENCY DENOMINATED ITEMS

Transactions denominated in a foreign currency have been recorded in euro, the Group's functional currency, using the exchange rates of the transaction dates. On the balance sheet date, monetary receivables and liabilities denominated in a foreign currency have been translated into euros using the European Central Bank's average exchange rate of that date and the resulting translation differences are recorded through profit or loss under Net income from foreign exchange transactions. The fair value changes of monetary securities denominated in a foreign currency and classified as available-for-sale are divided into translation differences arising from changes to the amortised cost of the security and other changes in carrying amount. Translation differences related to changes in amortised cost are recorded through profit or loss, while other changes in carrying amount are recognised in Other comprehensive income.

CLASSIFICATION OF FINANCIAL INSTRUMENTS AND MEASUREMENT PRINCIPLES

Based on IAS 39 Financial Instruments: Recognition and Measurement the company's financial assets have been classified into the following categories: loans and receivables, available-for-sale financial assets, held-to-maturity investments and financial assets at fair value through profit or loss. The classification depends on the purpose for acquiring the financial assets upon acquisition. The groups are measured as follows:

Loans and receivables

These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and which are not held-for-trading or designated on initial recognition as assets measured at fair value through profit or loss or as available-for-sale.

The items are initially recognised at fair value adjusted by transaction costs and subsequently measured at amortised cost. Loans and receivables include MuniFin's lending portfolio, leasing agreements, money market deposits and repurchase agreements. As a rule, MuniFin hedges fixed rate lending, lending at long-term reference rates and lending with structured interest rate terms, applying fair value hedge accounting to these. Lending included in hedge accounting is measured at fair value for the risk hedged.

Available-for-sale financial assets

Available-for-sale financial assets are assets not included in derivative assets that have either been specifically classified in this category or not classified in any other category. The company includes investments in debt securities and shares in investment funds in this category.

Available-for-sale financial assets are initially measured at fair value, and subsequent changes in fair value are recognised in Other comprehensive income and presented in the fair value reserve net of deferred tax. Foreign exchange gains & losses on debt securities denominated in foreign currencies are recognized through profit or loss under Net income from securities and foreign exchange transactions. Interest received on debt securities is recognised through profit or loss under Interest income. As presented in Note 30 Interest income and expenses negative interest income on assets is presented in interest expenses. Income from shares in investment funds and realised capital gains and losses from available-for-sale financial assets are recognised in the income statement under Net income from available-for-sale financial assets.

Held-to-maturity investments

The financial assets classified in this category are non-derivative financial assets with fixed or determinable payments that mature on a specific date and that the company intends and is able to hold to maturity. These financial assets are recorded at amortised cost using the effective interest method upon initial recognition. In 2008, MuniFin reclassified debt securities as held-to-maturity. Based on the amendments to IAS 39 and IFRS 7, debt securities classified as available-for-sale were transferred to held-to-maturity category at their fair value on 1 January 2008 and 1 July 2008. Detailed information about the transfers and their impacts are shown in Note 10. Held-to-maturity investments include municipal papers, municipal commercial papers and the debt securities reclassified in 2008.

Financial assets and liabilities at fair value through profit or loss

Financial assets and liabilities held-for-trading
In the financial statements prepared in accordance with International Financial Reporting Standards, all derivatives not included in hedge accounting are classified as held-for-trading, even if they have been entered into on risk management basis to hedge risks. In MuniFin, this category contains the following: derivatives hedging financial assets and liabilities which are valued using the fair value option, derivatives with municipalities, derivatives hedging derivatives with municipalities and derivatives hedging balance sheet interest rate risk, for which no specific hedged item has been defined. In addition, derivatives hedging financial liabilities with embedded derivatives and embedded derivatives bifurcated from the host contract are classified as held-for-trading.

Derivatives are recognised at fair value through profit or loss, and derivative contracts are recognised on the balance sheet. Positive fair value changes of derivative contracts that are recorded on the balance sheet are recognised in balance sheet assets under Derivative contracts and negative fair value changes in balance sheet liabilities under Derivative contracts. Fair value changes of derivatives held-for-trading are reported in the income statement under Net income from securities, with exception of foreign exchange gains and losses which are recognised under Net income from foreign exchange.

Fair value option
The company classifies certain financial assets and liabilities at fair value through profit or loss under the fair value option. Financial assets that are classified as fair value through profit or loss under the fair value option include investments in commercial papers, certain floating rate lending and certain debt securities of which the interest rate risk is hedged with interest rate derivatives. The fair value option is also applied to commercial papers and certain lending, as the items in question are reported to the management and managed on the basis of their fair value. Debt securities of which the interest rate risk is hedged with interest rate swaps, but which are not included in hedge accounting, are classified under the fair value option in order to eliminate the accounting mismatch between the derivative and the hedged item.

In financial liabilities, the fair value option is applied to short-term debt instruments denominated in foreign currencies for which the currency risk is hedged with FX swaps. The fair value option is applied in order to eliminate the accounting mismatch between the derivative and the hedged item. Changes in the fair values of these items are recognised in the income statement under Net income from securities and foreign exchange transactions. The impact of the fair value option on profit and loss is presented in Notes 33 and 34.

Other financial liabilities
Other financial liabilities contains all financial liabilities which are not classified at fair value through profit or loss through using the fair value option. Other financial liabilities are liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued and subordinated liabilities. Other financial liabilities are recognized on the balance sheet on the settlement date and are after initial recognition valued at amortised cost.

Issued structured debt securities can contain an embedded derivative. If economic characteristics of the embedded derivative are not closely related with the economic characteristics of the host contract, the embedded derivative is bifurcated from the host contract. The bifurcated embedded derivative is measured at fair value in the balance sheet with changes in fair value booked through profit and loss. The company hedges each embedded derivative, which has been separated from the issued debt security, in its entirety. The fair value changes of the embedded derivative and derivative are recognised in the income statement under Net income from securities and foreign exchange transactions.

IMPAIRMENT OF FINANCIAL ASSETS

At the end of each reporting period the company assesses whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and this loss event has an impact on the estimated future cash flows that can be reliably estimated. Objective evidence of impairment of an item or group recognised under financial assets can include information on the following loss events: the issuer or debtor is experiencing significant financial difficulty, or breach of contract terms, such as default or delinquency in interest or principal payments.

If objective evidence exists that impairment losses have been incurred for loans and receivables at amortised cost or held-to-maturity investments on the balance sheet, the amount of the loss is determined as the difference between the asset's carrying amount and the present value of its cash flows discounted with the original effective interest rate. The loss is recognized through profit and loss. If the impairment loss decreases in a subsequent financial period and the decrease can objectively be considered to be associated with an event after the recognition of the impairment loss, the impairment loss is reversed through profit and loss.

If objective evidence exists that impairment losses have been incurred for an item recognised under available-for-sale financial assets, the accumulated loss recognised in other comprehensive income is transferred from equity and recognised in profit and loss. If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can objectively be considered to be associated with an event after the recognition of the impairment loss in profit and loss, the impairment loss is reversed through profit and loss.

A financial asset is classified as non-performing, when its payments are over 90 days due, an impairment on the asset has been recognized or in the occurrence of other such events, where the solvency of the client can be assumed to be permanently compromised. In other cases, when payments are received in time or the receivable is less than 90 days due, the financial asset is classified as performing.

If the payment plan of a loan is modified, the reason for the modification is documented. Not all modifications are due to the weakening of the clients ability to pay, a part of the modifications of payment plans are done based on the management of the client relationship. These modifications do not affect the recognition of impairment. If the payment plan is modified or some other change in terms is made on a loan that a client cannot fulfill due to financial difficulties, the loan is always categorised as a forborne loan. Forborne loans are alleviations to the original payment plan agreed on the client's initiative and their purpose is to aid the client to manage temporary payment difficulties. The loan is no longer classified as a forborne loan after two years, if the client has been able to fulfill the new payment plan and no impairment on exposures has been recognised. Forborne loans and payment delays are regularly reported to management as an indicator of anticipated client payment ability/solvency.

RECOGNITION AND DE-RECOGNITION OF FINANCIAL ASSETS AND LIABILITIES

Loans and other receivables are recognised on the balance sheet when the customer withdraws the loan, available-for-sale financial assets and derivative contracts on the settlement day and financial liabilities when the consideration is received.

Financial assets are de-recognised when the contractual right to the assets expires or when the rights have been transferred to another party. Financial liabilities are de-recognised when the obligations have been fulfilled.

OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents contains cash and loans and advances to credit institutions payable on demand. Deposits and investments with maturities less than three months on the date of the acquisition can also be included in cash and cash equivalents.

DETERMINATION OF FAIR VALUE

The fair values of financial instruments are determined on the basis of either price quotations obtained from functioning markets or, if such markets do not exist, by applying valuation methods. A market is deemed to be functioning if price quotations are readily and consistently available, and they reflect real market transactions executed in a consistent manner between independent parties.

The market values of debt securities measured at fair value have been calculated primarily on the basis of price quotations received from the markets. For some investments, the fair value has been calculated by applying valuation techniques. The fair values of other financial assets, liabilities and derivative contracts are calculated based on publicly-quoted interest and exchange rates and valuation methods widely recognised on the market. Fair value levels and valuation methods are described in Note 5.

HEDGE ACCOUNTING

The interest rate and foreign exchange rate risk of the company are managed by entering into derivative transactions. Foreign currency denominated items are translated into euros, fixed rate and long-term reference rates are swapped to floating interest rates with shorter terms.

Fair value hedge accounting is applied to financial assets and liabilities, where the interest rate of the hedged item has been swapped to a floating rate using derivatives. In addition fair value hedge accounting is applied to foreign currency denominated financial assets and liabilities, which have been hedged by exchanging the principal into euros and its interest rate into a floating rate. MuniFin does not apply cash flow hedge accounting. The hedging relationships within hedge accounting are properly documented and they comply with the company's risk management objectives and strategy.

As for financial assets, the company applies fair value hedge accounting to fixed-rate and long-term reference rate tied lending and leasing and fixed rate debt securities denominated in euros. For these financial assets the hedged risk is interest rate risk. In addition the company applies fair value hedge accounting to lending containing structured interest terms, where the hedged risk, in addition to interest rate risk, can be an optionality contained in the loan or another risk related to the interest terms. The company applies portfolio hedging for fixed and long-term reference rate tied lending and fixed leasing.

For loans and receivables the hedged item is at amortised cost with exception of the interest rate risk, which is subject to fair value hedge accounting. The change in the value of the hedged risk is accounted for as an adjustment to the carrying amount of the hedged item through profit or loss. The customer margin for lending and leasing is not part of the hedging relationship.

The company applies fair value hedge accounting to debt securities in foreign currencies. The hedged item is, in addition to interest rate risk, also foreign exchange risk. The hedged items have been classified as available-for-sale financial assets. In addition to the hedged interest rate risk and foreign exchange gain and losses are recognised in profit and loss. The hedged items classified as available-for-sale financial assets are measured at fair value in their entirety, but the value change in the hedged risk is recognised in the income statement.

Interest rate swaps and cross currency interest rate swaps with interest terms equivalent to the financial asset are used as hedging instruments.

As for financial liabilities, fair value hedge accounting is applied to fixed rate funding denominated in euros, floating and fixed rate funding denominated in foreign currencies and funding with structured interest rate terms, which does not contain embedded derivatives. The hedged item for euro denominated funding is interest rate risk. The hedged item can also be an optionality included in the financial liability. For foreign currency denominated financial liabilities the hedged item is foreign exchange and interest rate risk. Regarding funding containing structured interest rate terms the hedged risk can, in addition to interest rate and foreign exchange risk, also be an optionality or another risk related to the interest rate terms.

For other financial liabilities the hedged items is at amortised cost, excluding the portion of hedged risk, which is subject to fair value hedge accounting. The credit risk of MuniFin is not included in the hedging relationship. The change in the value of the hedged risk is recognised as an adjustment to the carrying amount of the hedged item through profit or loss. Separating the credit risk from the fair value is a requirement for applying hedge accounting only on interest rate and foreign exchange risks. MuniFin uses interest rate swaps, cross currency interest rate swaps and interest rate options as hedging instruments.

The fair values of derivatives included in hedge accounting are presented in Note 12. The change in fair value due to foreign exchange differences of derivatives in hedge accounting and the hedged items are recognised in the income statement under Net income from foreign exchange transactions. Other changes in fair value of the hedged balance sheet items and derivatives hedging them are recognized in the income statement under net income from hedge accounting. The ineffective portion of the hedging relationship is also shown on this line in the income statement. The interest received and paid on derivative contracts is recognised as an adjustment to interest expenses regarding hedged liabilities or as an adjustment to interest income regarding hedged assets.

The effectiveness of the hedging relationships is evaluated when the relationship is created and during subsequent hedging periods. The hedging has been effective if the changes in fair value or cash flows of the protected item as well as the changes in fair value and cash flows of the hedging instrument range between 80% and 125%. The effectiveness of hedging is verified at the subscription of a contract object for fair value hedge accounting or portfolio hedge accounting and regularly after that, at least on quarterly basis. Quarterly effectiveness testing includes both prospective and retrospective testing.

LEASES

Leases are classified as financial leases and other leases depending on whether the essential risks and benefits of ownership are transferred to the lessee.

Financial leasing agreements, where MuniFin is the lessor, are recorded on the balance sheet as an asset at an amount corresponding to the net investment in the lease agreement. The proceeds from the leases are divided into repayments and interest income. Interest income is recognised over the term of the lease in a way that the remaining net investment yields the same rate of return over the period of the lease. Financial leasing agreements are classified under the financial asset category Loans and receivables. Interest received is presented in the income statement under Interest income.

In the case of other leases, MuniFin is the lessee. Other leases are primarily related to office space. Rents payable on the basis of lease agreements are recognised as expenses in the income statement in equal instalments over the duration of the lease.

INTANGIBLE AND TANGIBLE ASSETS

Intangible and tangible assets are recognised in the balance sheet at historical cost, net of accumulated depreciation and impairment. Assets are depreciated on a straight-line basis over their estimated useful lives.

Machinery and equipment are depreciated according to plan on a straight-line basis over five years. Capitalized IT hardware is depreciated on a straight-line basis over four years and capitalized software based on its estimated useful life over four, seven or ten years. Office renovation costs are depreciated on a straight-line basis by the expiry of the fixed-term lease of the office. Real estate is depreciated on a straight-line basis over 25 years.

The assets' residual values and useful lives are reviewed at the end of each financial year and, if necessary, adjusted to reflect the changes in the expected economic benefit.

IMPAIRMENT OF INTANGIBLE AND TANGIBLE FIXED ASSETS

The company assesses at each financial statement date whether there is any evidence of intangible assets or tangible fixed assets being impaired. If evidence of impairment is identified, the recoverable amount is assessed for the given assets. If the carrying amount of an asset item is greater than the recoverable amount, an impairment loss is recognised in the income statement.

PROVISIONS AND CONTINGENT LIABILITIES

A provision is booked for an obligation, if the obligation is based on a past event and it is probable that the obligation will be realized, yet the timing and exact amount are uncertain. The obligation needs to be based on either an actual or legal obligation towards a third party. A contingent liability is a potential obligation based on past events. The existence of the obligation will not be confirmed until the uncertain future event outside the control of the Group occurs. Contingent liabilities can also be such obligations, that do not require an outflow to settle or of which the amount cannot be reliably estimated.

APPROPRIATIONS

The difference between the depreciation according to plan and the depreciation of assets in taxation the depreciation difference, is shown in the parent company statement of financial position on line Total appropriations. In the income statement the depreciation difference is shown on line Appropriations. The voluntary credit loss provision and depreciation difference recognised under the Finnish Accounting Standards does not meet the recognition criteria set out in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and the credit loss provision and depreciation difference are thus released in the consolidated financial statements into equity and deferred tax liability in accordance with IAS 12 Income Tax.

EQUITY

Equity contains share capital, retained earnings and reserves of equity (reserve fund, fair value reserve and reserve for invested non-restricted equity). Other instruments issued by the company can be classified into equity based on their nature. Perpetual instruments with interest payments which are at the discretion of the issuer are classified as equity in the consolidated financial statements.

The EUR 350 million AT1 capital loan issued by the company is an equity instrument and included in consolidated equity. The capital loan is perpetual and the interest payments and redemption are at the discretion of MuniFin. The AT1 capital loan is subordinated to other liabilities. It is senior to other items contained in equity. The instrument holders do not bear rights of shareholders, control or voting rights at the annual general meeting. Interest payments are treated as a deduction of equity based on the decisions of the issuer. Transaction expenses are deducted from the capital. These are presented in equity net of deferred taxes as a deduction of the capital loan. The deferred tax assets are recognized in the income statement through the tax deduction of the transaction expense amortisation. The deferred tax assets and liabilities are presented in Note 18.

RECOGNITION OF INCOME AND EXPENSES

Net interest income

Interest income and expense are recognized in net interest income. Commissions and fees received and paid, transaction expenses as well as premium or discount are taken into account when the effective interest rate is calculated. For floating rate financial liabilities premium or discount is amortised from the date of issuance to the next interest payment date. For fixed rate financial liabilities the premium or discount is amortised until maturity. Since 2015 the company has amortised the premium or discount of floating rate debt securities until maturity. In the current market conditions, the premium or discount on a financial asset is not based on changes in market rates, but credit risk. The market value of a floating rate investment does not reset to the nominal when its interest rate is re-fixed to market interest rates, therefore is it not amortisation to the next interest date is not justifiable. The company evaluates regularly the impact of changes in market conditions on the amortisation principle and applying it regularly.

The negative interest income from assets is presented as interest expense and the positive interest expense from liabilities is presented as interest income. The interest income and expenses on derivatives hedging liabilities is recognized in interest expense and the interest income and expenses on derivatives hedging assets is recognized in interest income.

Commission income and expenses

Commission income includes the commissions and fees received for financial advisory services and other received fees. Commission expenses include paid guarantee fees, custody fees and funding programme update fees. Commission income and expenses are primarily recognised when the service is provided.

Net income from hedge accounting

Net income from hedge accounting includes the net result from recognising financial assets and liabilities and derivative contracts hedging them at fair value for the hedged risk. Foreign exchange gains and losses on hedged items and hedging instruments are recognized in Net income foreign exchange transactions.

Net income from securities and foreign exchange transactions

Net income from securities includes fair value changes of items valued using the fair value option, fair value changes of derivatives not included in hedge accounting as well as capital gains and losses related to these items. Net income from foreign exchange transactions includes unrealised and realised translation differences for all items denominated in foreign currencies. Translation differences related to the hedged items and hedging instruments in hedge accounting are also presented under this item.

EMPLOYEE BENEFITS

The company's remuneration system is in its entirety contribution based. Its description is available online at www.munifin.fi. Pension coverage has been arranged via an external pension insurance company. Pension plans are classified as defined contribution plans. The contributions payable are recognised as expenses in the income statement for the period to which the payments relate.

INCOME TAXES

Income taxes in the consolidated income statement comprise accrual-based taxes that are determined based on the profits generated by the Group companies, and changes in deferred taxes in accordance with IAS 12 Income Taxes. Taxes are recognised in the income statement, with the exception of taxes related to items recognised in other comprehensive income or in equity. In this case, the tax is also recognised correspondingly in other comprehensive income or directly in equity. Taxes based on the taxable income for the period are calculated based on tax legislation enacted or approved in practice by the financial statement date.

Deferred taxes may comprise of temporary differences between accounting book value and taxable value, as well as confirmed tax losses. Deferred taxes in the consolidated financial statements consist of the release and transfer to equity of the voluntary credit loss provision and depreciation difference recorded by the parent company and the fair value change of available-for-sale investments. In addition, deferred taxes arise from differences in the treatment of the AT1 capital loan and issuance expenses and interest expenses related to the AT1 capital loan in the parent company's statutory financial statements and the consolidated financial statements.

Deferred taxes are presented in Note 18. Deferred tax liabilities and assets are calculated based on the tax rate that is anticipated to be in force at the time of the temporary difference being released. If a deferred tax arises from balance sheet items for which changes do not have an impact on the income statement, the change in deferred tax is recognised in other comprehensive income, not in the income statement.

EXCEPTIONAL ITEMS

Transactions that are not part of ordinary business operations and are of exceptional size or nature are recognised as exceptional items. The income statements and cash flow statements for 2017 and the comparison year 2016 do not include any exceptional items.

ACCOUNTING POLICIES REQUIRING MANAGEMENT JUDGEMENT AND KEY UNCERTAINTY FACTORS RELATED TO ESTIMATES

Preparation of the accounts in accordance with the IFRS requires management estimates and assumptions that affect the revenue, expenses, assets and liabilities presented in the financial statements.

The key assumptions made by the Group concern key uncertainty factors pertaining to the future and the estimates at the financial statement date. These relate to, among other things, the determination of fair value and the impairment of financial assets. Where market price information is limited, the determination of financial assets that are not publicly quoted or other financial assets requires management judgement. The principles used in calculating fair values is presented in Note 5. Fair values of financial assets and liabilities. The Group determines on a monthly basis whether there is objective evidence of impairment of financial assets other than those recorded at fair value through profit or loss. The risk management principles applied are described as part of the financial statements.

APPLICATION OF NEW STANDARDS

The consolidated financial statements have been prepared in accordance with the same accounting policies as in 2016, with the exception of the following new standards, interpretations and amendments to existing standards that the Group has applied starting from 1 January 2017.

Amendments to IFRS 12, Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments have not had an impact on the company's consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments have not had a significant impact on the company's consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments have not had a significant impact on the company's consolidated financial statements.

Other new or amended standards that entered into effect in 2017 did not have an impact on the consolidated financial statements.

New and amended standards and interpretations not yet adopted

The company has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The company will adopt them on their effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. Standards published by IASB that enter into effect after 1 January 2017:

Impact of IFRS 9 Financial Instruments standard on MuniFin's consolidated financial statements after the adoption on 1 January 2018

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing principles in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The new standard will have an impact on the company's consolidated financial statements. In 2016, the company started its IFRS 9 implementation project with an impact assessment. During 2017, MuniFin has developed an expected credit loss model and analyzed and documented classification changes, updated its accounting and monitoring processes and executed a parallel run from the end of June 2017 onwards. The system development related to the implementation of IFRS 9 will continue during the beginning of 2018. The MuniFin Group will adopt IFRS 9 on 1 January 2018.

Classification and measurement - According to IFRS 9 financial assets are classified at amortised cost, at fair value through other comprehensive income or at fair value through profit or loss. The classification of financial assets is dependent on the business model applied to managing the financial assets and the characteristics of their contractual cash flows. MuniFin has identified two different business models for managing financial assets: the first business model is based on holding financial assets and collecting contractual cash flows. The other business model is based on collecting contractual cash flows and selling financial assets. In the business model assessment, the company has divided financial assets into groups based on how the financial assets are managed in order to meet business objectives. As part of the evaluation of the business models in accordance with IFRS 9, the company has analysed its objectives for the management of financial assets, the content of management reporting and the historical sales behaviour.

The classification of financial assets is not expected to have a large impact on MuniFin's income statement or statement of financial position. The classification required by the applicable business models, matches the classification under IAS 39 to a large extent. The company's lending held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. Liquidity investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. In addition to the aforementioned, financial assets such as bank account balances, bank deposits, CSA collateral receivables and reverse repos are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.

Based on the identified business model for the company's short and long term lending, these financial assets are measured at amortised cost in IFRS 9. In IAS 39 lending was primarily classified within Loans and receivables and municipal commercial papers and municipal company commercial papers were classified as held-to-maturity. In IFRS 9 lending previously measured with the fair value option will be measured at amortised cost. As a result of the SPPI test performed on the contractual cash flows of these financial assets, certain lending agreements with structured interest terms will be fair valued through profit and loss.

Liquidity investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. Thus based on the business model, the investments currently classified as available-for-sale will, be measured at fair value through other comprehensive income (FVOCI) also under IFRS 9. The majority of fixed rate debt securities are hedged with an interest rate swap in accordance with the company's risk management policy. MuniFin will elect to utilise the fair value option for these debt securities in order to eliminate the otherwise created measurement or recognition inconsistency ('Accounting mismatch'). Commercial paper investments, measured using the fair value option in IAS 39, will be measured at fair value through other comprehensive income in IFRS 9 as they are part of the same business model as other liquidity investments. The company's liquidity investments also include shares in an investment fund and debt securities reclassified to held-to-maturity in 2008. The company has carried out SPPI tests on the financial assets, in order to evaluate whether all contractual cash flows of its financial assets within the business model fulfil the IFRS 9 requirement of being solely payments principal and interest. Contractual cash flows of investment funds and debt securities reclassified in 2008 cannot be regarded solely as payments of principal and interest, and thus, despite of the business model they will be measured at fair value through profit or loss as a result of the SPPI test.

Bank account balances, bank deposits, CSA collateral receivables and reverse repos contained in the balance sheet line item Loans and advances to credit institutions are held within a business model whose objective is achieved by collecting contractual cash flows. Thus these financial assets, classified as loans and receivables in IAS 39, will continue to be measured at amortised cost.

As in IAS 39, also in IFRS 9 the company will classify the majority of its financial liabilities at amortised cost. However, the fair value option will be applied to a larger share of financial liabilities than before. In IAS 39 MuniFin has applied the fair value option to only short-term debt instruments denominated in foreign currencies, which have been hedged with a FX swap. As a result of applying the fair value option under IFRS 9 the changes in own credit risk will be shown in other comprehensive income. Fair value hedge accounting will be applied to the majority of financial liabilities at amortised cost.

Hedge accounting – For fixed rate and long-term reference rate lending included in portfolio hedge accounting, MuniFin will continue to utilise portfolio hedge accounting in accordance with IAS 39. For fixed leasing contracts, MuniFin will move to using IFRS 9 hedge accounting. In the transition to IFRS 9 MuniFin will no longer utilize hedge accounting for its investments in debt securities. In addition MuniFin will decrease the extent to which fair value hedge accounting is used on financial liabilities due to the increased use of the fair value option. In its fair value hedge accounting of foreign currency liabilities, MuniFin will utilize the option to exclude the foreign currency basis spread from the hedge relationship. Thus, the foreign currency basis spread changes will impact other comprehensive income and not create ineffectiveness in the hedge relationship.

Impairment - The IFRS 9 requirements for impairment are based on a model of expected credit losses instead of the current model that is based on incurred losses. The general expectation is that with the adoption of the standard, the expected credit losses calculated in accordance with IFRS 9 will increase the amount of impairment and thus reduce equity and weaken capital adequacy. The impairment test will be carried out in accordance with IFRS 9 for all financial assets measured at fair value through other comprehensive income or amortised cost, finance lease receivables and off-balance sheet binding loan commitments.

The assets in the scope of the expected credit loss impairment model are classified into three categories. Stage 1 includes assets with no significant increase in credit risk. Stage 2 includes assets with significantly increased credit risk, and stage 3 includes assets that fulfil the definition of default. The definition of default is in line with the company's capital adequacy calculations and risk management. The provision for stage 1 is equivalent to the credit loss expected for 12 months. For stages 2 and 3, the provision is equivalent to the expected credit losses for the entire lifetime. Based on the current analysis, the majority of the company's assets are included in stage 1. During the first half of 2017, the company has developed a model for calculating the expected credit losses, while simultaneously developing its customer analysis tools in order to take all required input information into account. Expected credit losses are calculated by using the formula Probability of Default * Loss Given Default * Exposure At Default and modelled risk parameters. When calculating the loss given default on the lending portfolio, MuniFin includes the possible guarantee from the municipality or government in the calculation. These reduce the loss given default. Expected credit losses are discounted to the reporting date using the effective interest rate or its approximation.

Transfers from Stage 1 and Stage 2 are based on if a significant increase in credit risk has taken place between the initial recognition and the reporting date. The company utilizes specific criteria in assessing if credit risk has increased significantly since initial recognition. If one of the following factors indicate that credit risk has increased significantly, the instrument will be moved from stage 1 to stage 2:

- Thresholds for significant increases in credit risk based on both the percentage and absolute change in probability of defaults relative to initial recognition
- Additional qualitative factors, such as forbearance on a financial asset
- Financial assets which are 30 days past due

Movements between Stage 2 and Stage 3 are based on whether a financial assets is credit impaired based on credit risk. A financial assets is impaired if there is objective evidence of impairment. Financial assets can move back to a lower stage after a probation period and after fulfilment of certain criteria. The definition of default for ECL corresponds to the definition used in risk management.

In the measurement of expected credit losses, past events and forward looking information is used. Utilising forward looking information in the expected credit loss model requires judgement. In addition to the aforementioned factors also meaningful macroeconomic variables are included in the model. Their forecasts are included in the macroeconomic scenarios.

Impact of the transition on equity on 1 Jan 2018 – MuniFin has estimated the expected credit loss provision on the transition to a maximum of EUR -3 million and it will therefore not have a significant impact on the company's financial result or capital adequacy. On the transition the provision will decrease equity.

MuniFin estimates that the other changes due to the transition to IFRS 9 will decrease equity by EUR 20-30 million.

Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation.

Other IFRS standards

IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. In IFRS 15 a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time. The standard introduces also extensive new disclosure requirements. The amendments are not expected to have a significant impact on the company's consolidated financial statements.

Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers (effective for financial years beginning on or after 1 January 2018). The clarifications have been included in the IFRS 15 impact assessment described above.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. The amendments are not expected to have a significant impact on the company's consolidated financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associate or Join Venture (the effective date has been postponed indefinitely). The amendments address to clarify the requirements in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments are not expected to have an impact on the company's consolidated financial statements.

*) The amendment has not yet been endorsed by the European Union as of 27 November 2017.

IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration (effective for financial years beginning on or after 1 January 2018). When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The amendments are not expected to have an impact on the company's consolidated financial statements.

Amendments to IAS 40 - Transfers of Investment Property (effective for financial years beginning on or after 1 January 2018). When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The amendments are not expected to have an impact on the company's consolidated financial statements.

Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2018). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. Their impacts vary standard by standard but are not significant.

IFRIC 23 Uncertainty over Income Tax Treatments* (effective for financial years beginning on or after 1 January 2019). The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment.

Annual Improvements to IFRSs (2015-2017 cycle) (effective for financial years beginning on or after 1 January 2019). The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23.

Other standards and interpretations to be applied in future financial periods are not assessed to have an impact on the consolidated financial statements.

NOTE 2. RISK MANAGEMENT PRINCIPLES AND THE GROUP'S RISK POSITION

GENERAL PRINCIPLES OF RISK MANAGEMENT

MuniFin's operations require sufficient risk management mechanisms to ensure that the company's risk positions remain within the limits set by the Board of Directors. MuniFin applies very conservative principles to its risk management. The aim is to keep the overall risk profile at such a low level that the company's strong credit rating (Aa1 /AA+) is not compromised.

The company regularly surveys risks related to its operations and continuously develops methods for recognising and managing risks. Risks are assessed with regular risk analyses. The aim of the analyses is to recognize the new challenges and risks created by changes in the operating environment and prioritise the risks and their management on the basis of the results. The company mitigates risks it has identified with collateral, guarantees, derivatives, insurance and active risk management. According to its own analysis, MuniFin does not have any liabilities containing wrong-way risk (the likelihood of a default by counterparty is positively correlated with general market risk factors).

In 2016, MuniFin developed its risk management methods further by introducing a more detailed and more transparent Risk Appetite Framework (RAF). The framework is updated regularly, at least annually, and MuniFin's Board of Directors approves the document. The purpose of the RAF is to enable the company to:

1. Effectively identify, assess and manage the risks inherent in its strategy as well as its internal risks,
2. Understand and decide on the amount of risk it is willing and able to take in executing its business strategy, and to actively communicate it,
3. Promote sound discussion about the risk appetite of the company and an effective and credible discussion and challenging of business and risk taking decisions.

The Risk Appetite Framework is linked to both short-term and long-term strategic plans, capital and financial plans, the recovery plan and the remuneration policy. It is fully aligned with the ICAAP (Internal Capital Adequacy Process) and the ILAAP (Internal Liquidity Adequacy Process).

MuniFin conducts an annual comprehensive stress test in cooperation with an independent external party. The risk management and business functions are both involved in the design process of the stress scenarios. The aim of the latest stress test conducted in the second half of 2017 was to analyse the development of MuniFin's capital adequacy during the period of 2017–2023. The test applied to business, market and credit risks and their estimated financial impact under different scenarios. The test also included a so called reverse stress test to analyse the trends in exceptional circumstances in which the company's capital might fall to a critically low level. As in the previous stress tests, the results showed that with the current capital requirements, the level of the company's capital is sufficient in the covered time period even under highly adverse circumstances. Furthermore, the results showed that the company had an adequate amount of own funds to cover the anticipated 3 percent leverage ratio requirement.

There were no material changes in the company's risk position in 2017. Risks remained within the set limits and, based on the company's assessment, risk management met the requirements set for it. The company's risk position is regularly reported to the Board of Directors as a part of monthly risk reporting, and, in addition, the Chief Risk Officer provides the Risk Committee of the Board a semi-annual extended risk review of the company's risk positions.

ORGANIZATION OF RISK AND CAPITAL ADEQUACY MANAGEMENT

MuniFin's general principles, limits and measurement methods used in risk management are determined by the Board of Directors. The Risk Committee of the Board assists the Board of Directors in matters regarding the risk strategy and risk taking and in supervising that the company follows the risk strategy defined by the Board. The purpose of risk management is to ensure that the risks associated with lending, funding, investment and other business operations are in line with MuniFin's low risk profile defined in the Risk Appetite Framework and related risk policies. The Board of Directors considers the company to have adequate level of risk management in proportion to the nature and riskiness of its operations.

MuniFin has an extensive risk management organisation, which covers all operations including the tasks and responsibilities of different departments and decision-making bodies.

The Risk Management department, which serves as the 2nd line of defence and is independent of the business functions, is responsible for risk management principles and processes led by the Chief Risk Officer. The Capital Markets function (1st line of defence) is responsible for managing the interest rate risk profile of the consolidated balance sheet by entering into market transactions within the limits set by the Board of Directors. The risk position and limit usage are reported to the Board of Management and Board of Directors on a regular basis. The Business Control and Reporting department, led by the Chief Financial Officer, is responsible for the principles related to capital adequacy and the structure of own funds. The Compliance function (2nd line of defence) monitors the company's compliance with regulation. Finally, the Internal Audit (3rd line of defence) regularly audits different parts of the company's operations.

STRATEGIC RISKS

Strategic risk means that MuniFin would choose a wrong strategy for pursuing financially profitable operations or that the company would fail to adapt its strategy to changes in the operating environment. The management of strategic risks is based on continuous monitoring and analyses of customers' needs, forecasts of market trends, and analyses of changes in the competition and the operating environment. Risks and their significance are assessed annually as a part of the strategy process and in connection with annual assessment of the Board of Management. The existing strategy extends to 2022, and it is updated at least annually.

CREDIT RISK

Credit risk means the risk of a counterparty defaulting on its commitments to the company. MuniFin's customers consist of municipalities, municipal federations and municipality-controlled entities, as well as non-profit corporations and other non-profit organisations nominated by the Housing Finance and Development Centre of Finland (ARA). MuniFin may only grant loans and leasing financing without a separate security directly to a municipality or municipal federation. For others, loans must be secured with an absolute guarantee or a deficiency guarantee issued by a municipality or municipal federation, or by a state deficiency guarantee. A primary pledge is required when the loan is given a deficiency guarantee by a municipality or the state. The amount of the primary pledge must equal 1.2 times the amount of the loan. Because such a guarantee is required to reduce the credit risk, all loans granted are classified as zero-risk when calculating capital adequacy. The company does not bear the residual value risk for the objects of its leasing services. MuniFin has not had credit losses in the financing of its customers. The company does not have customer limits for lending as all lending is to counterparties which are allocated the risk weight of zero percent in the capital adequacy calculations. The company, however, analyses the credit risk and payment behaviour of its customers regularly.

MuniFin is also exposed to credit risk from its liquidity portfolio investments and derivative instruments. In selecting counterparties, MuniFin evaluates credit risk with principles and limits, approved by the Board of Directors, based on external credit ratings. Nominal values of debt securities and equivalent credit values of derivatives (mark-to-market method) are used in monitoring credit risk.

BALANCE SHEET AND BINDING LOAN COMMITMENT EXPOSURES

31 DEC 2017 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	12,947,021	9,672,506	-	2,506,927	767,588
Enterprises and housing corporations	13,024,370	11,598,759	-	87,670	1,337,941
Non-profit organisations	394,258	379,581	-	-	14,677
Credit institutions	5,144,550	-	1,251,391	3,893,159	-
Other	6,478	-	-	6,478	-
Total	**31,516,678**	**21,650,847**	**1,251,391**	**6,494,234**	**2,120,206**

31 DEC 2016 (EUR 1,000)	Total	Loans and advances to the public and public sector entities	Loans and advances to credit institutions	Debt securities	Binding loan commitments
Public sector entities	13,535,122	9,770,593	-	2,960,638	803,891
Enterprises and housing corporations	12,192,342	11,051,611	-	91,012	1,049,719
Non-profit organisations	403,243	373,535	-	-	29,708
Credit institutions	4,830,180	-	438,811	4,391,369	-
Other	26,419	-	-	26,419	-
Total	**30,987,306**	**21,195,739**	**438,811**	**7,469,437**	**1,883,319**

MuniFin limits credit risk arising from its derivative counterparties with ISDA Credit Support Annexes. The company has 49 Credit Support Annexes in force of which 37 require daily margining. Additionally, the Municipal Guarantee Board's guarantees are used for reducing the derivative counterparty risk of certain counterparties.

BREAKDOWN OF NOMINAL VALUE OF DERIVATIVE AGREEMENTS BY COUNTERPARTY CREDIT RATING

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Finnish municipalities	2,007,231	2,110,387
Central counterparty	10,241,247	2,877,791
AAA	-	-
AA	15,810,173	14,512,222
A	28,859,102	36,513,128
BBB	4,472,630	5,464,418
Total	**61,390,383**	**61,477,946**

GIVEN AND RECEIVED CASH COLLATERAL BASED ON CSA AGREEMENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Given collateral	-1,227,170	-421,600
Given collateral to central counterparty	-148,205	-49,838
Received collateral	699,780	2,157,680
Net collateral	**-675,595**	**1,686,242**

The Credit Valuation Adjustment (CVA) that measures counterparty credit risk and MuniFin's own Debt Valuation Adjustment (DVA) are both taken into account when calculating credit risk exposures arising from derivative counterparties. The CVA is estimated for each derivative counterparty by calculating MuniFin's expected positive exposure throughout the maturity of the derivative portfolio, taking into account the probability of default and the estimated amount of loss in the possible event of default. Input data for the calculation is based on the terms of CSA agreements, generally accepted assumptions in the markets on the loss given default and expected probabilities of default based on historical credit rating matrices. Similarly, the DVA is determined on the basis of MuniFin's expected negative exposures, taking into account the probability of MuniFin's own default and the loss given default.

In May 2016, MuniFin switched to using central counterparties (CCPs) in the clearing of standard over-the-counter (OTC) derivative contracts, as required by "EMIR", the European Markets Infrastructure Regulation. In this model, at the end of a daily clearing process, a CCP becomes the counterparty to each cleared trade. The purpose of CCP clearing is to reduce counterparty risk. Currently, MuniFin has two global banks providing clearing broker services.

MARKET RISK

Market risk means the risk of the company incurring a loss as a result of an unfavourable change in market price or its volatility. Market risks include interest rate, foreign exchange, share price and other price risks. MuniFin manages the interest rate risk arising from business operations by means of derivative contracts. Interest rate risk arises mainly from the difference in euribor rate terms between assets and liabilities. The company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros. The company does not bear any material foreign exchange risk. Derivative contracts are also used to hedge against other market risks. Derivative contracts may only be used for hedging purposes.

DOMESTIC AND FOREIGN CURRENCY DENOMINATED FUNDING

31 DEC 2017 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	3,860,290	42,190	3,902,480
Liabilities to the public and public sector entities	393,161	253,398	646,558
Debt securities issued	3,530,439	22,773,522	26,303,961
Total	**7,783,890**	**23,069,109**	**30,853,000**

DISTRIBUTION OF FUNDING BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES

31 DEC 2017 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	9,324,063	3,592,093	985,231	1,485,552	3,848,825	19,235,764
Short-term funding	3,608,134	-	225,212	-	-	3,833,346
Currency risk total	**12,932,197**	**3,592,093**	**1,210,443**	**1,485,552**	**3,848,825**	**23,069,109**
Hedging derivatives	-12,932,197	-3,592,093	-1,210,443	-1,485,552	-3,848,825	-23,069,109
Unhedged currency risk	**-**	**-**	**-**	**-**	**-**	**-**

DOMESTIC AND FOREIGN CURRENCY DENOMINATED FUNDING

31 DEC 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	5,268,229	94,088	5,362,317
Liabilities to the public and public sector entities	590,874	282,045	872,919
Debt securities issued	2,377,486	22,206,683	24,584,169
Total	**8,236,590**	**22,582,816**	**30,819,406**

DISTRIBUTION OF FUNDING BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES

31 DEC 2016 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Long-term funding	9,790,352	4,106,564	1,579,468	1,702,558	4,264,525	21,443,467
Short-term funding	1,139,348	-	-	-	-	1,139,348
Currency risk total	**10,929,701**	**4,106,564**	**1,579,468**	**1,702,558**	**4,264,525**	**22,582,816**
Hedging derivatives	-10,929,701	-4,106,564	-1,579,468	-1,702,558	-4,264,525	-22,582,816
Unhedged currency risk	**-**	**-**	**-**	**-**	**-**	**-**

FINANCIAL ASSETS IN DOMESTIC AND FOREIGN CURRENCIES

31 DEC 2017 (EUR 1,000)	Domestic currency	Foreign currency	Total
Cash and balances with central banks	3,554,182	-	3,554,182
Loans and advances to credit institutions	1,245,650	5,742	1,251,391
Loans and advances to the public and public sector entities	21,650,847	-	21,650,847
Debt securities	6,287,365	206,869	6,494,234
Shares and participations	9,662	-	9,662
Other assets	135,508	12,697	148,205
Total	**32,883,213**	**225,308**	**33,108,521**

DISTRIBUTION OF ASSETS BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES

31 DEC 2017 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Loans and advances to credit institutions	5,239	-1	83	345	76	5,742
Debt securities	91,091	18,899	17,948	51,193	27,737	206,869
Other assets	12,697	-	-	-	-	12,697
Currency risk total	**109,027**	**18,898**	**18,031**	**51,538**	**27,814**	**225,308**
Hedging derivatives	-96,094	-18,899	-17,948	-51,193	-27,737	-211,872
Unhedged currency risk	**12,933**	**-1**	**83**	**345**	**76**	**13,436**

FINANCIAL ASSETS IN DOMESTIC AND FOREIGN CURRENCIES

31 DEC 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Cash and balances with central banks	988,949	-	988,949
Loans and advances to credit institutions	432,402	6,131	438,533
Loans and advances to the public and public sector entities	21,195,739	-	21,195,739
Debt securities	7,237,952	231,486	7,469,437
Shares and participations	9,695	-	9,695
Other assets	58,816	3,799	62,615
Total	**29,923,553**	**241,416**	**30,164,969**

DISTRIBUTION OF ASSETS BY CURRENCY BASED ON CARRYING AMOUNTS AND HEDGES

31 DEC 2016 (EUR 1,000)	USD	JPY	GBP	CHF	Other currencies	Total
Loans and advances to credit institutions	5,466	7	240	379	40	6,131
Debt securities	117,753	48,625	17,536	37,102	10,470	231,486
Other assets	3,799	-	-	-	-	3,799
Currency risk total	**127,018**	**48,632**	**17,776**	**37,481**	**10,509**	**241,416**
Hedging derivatives	-117,753	-48,625	-17,536	-37,102	-10,470	-231,486
Unhedged currency risk	**9,265**	**7**	**240**	**379**	**40**	**9,930**

The company has specified limits for the following market risks:

- Currency position
- Interest rate risk
  - Value-at-Risk
  - Economic Value
  - Income risk
- Price risk of liquidity portfolio investments

Currency position
The currency position is calculated as the euro-denominated difference between assets and liabilities in various currencies.

(EUR 1,000)	Currency position
31 Dec 2017	13,436
31 Dec 2016	9,930

Value-at-Risk
The VaR figure describes the maximum negative change in the market value of the balance sheet for a 10-day period at a probability of 99% in euros. The VaR model used by the company measures market risks on the balance sheet, i.e., in practice, the interest rate sensitivity, as the company hedges against all other market risks. The model does not measure credit risk on the balance sheet.

(EUR 1,000)	31 DEC	Year's average	Year's lowest	Year's highest
2017	-2,200	-2,995	-1,860	-3,750
2016	-3,290	-4,128	-3,290	-5,860

Economic Value
Economic Value describes the interest rate sensitivity of the present value of the balance sheet. It is measured by calculating the change in the present value of interest rate sensitive cash flows for different interest rate curve changes. The basic scenario is a 200 basis point increase and decrease of the interest rate curve (floored at zero %).

(EUR 1,000)	Impact	In relation to own funds
31 Dec 2017	-5,600	0.44%
31 Dec 2016	-6,200	0.56%

Income risk
Income risk refers to the negative impact of interest rate changes on the company's net interest income. The basis scenario is a 100 basis point shift throughout the interest rate curve. The impact is evaluated in proportion to the company's profitability and own funds.

(EUR 1,000)	Impact	In relation to net interest income
31 Dec 2017	-20,207	10.7%
31 Dec 2016	0	0.0%

At the end of 2017 income risk included zero floor option in the loans.

Price risk
Price risk refers to the possibility of changes in the market values of liquidity investments due to a change in the market's required return as a consequence of a change in the investment's risk or in the market's risk sensitivity. The change in required return is calculated at a 99% confidence level.

(EUR 1,000)	Change in required return	Impact	In relation to own funds
31 Dec 2017	0.20 pp	-26,800	2.1%
31 Dec 2016	0.5 pp	-83,399	7.4%

LIQUIDITY RISK

Liquidity risk means the risk of the company not being able to perform its payment obligations arising from settling financial agreements or other financial activities on their due date. The company manages the liquidity risk by limiting the average maturity between customer financing and funding. In addition, the company has set a minimum level for available liquidity (survival horizon) which should be sufficient for at least six months' liquidity needs. The Board of Directors of MuniFin has set the following limits on liquidity risks: refinancing gap and survival horizon.

Breakdown of financial liabilities by maturity is presented using nominals and future interest payments translated into euros using year-end foreign exchange rates. Financial liabilities containing a call option are shown in the table at the amount at which the liability can be called on the next call date. These liabilities are also shown in the maturity bucket corresponding to the next call date. The financial statement line Liabilities to credit institutions contains CSA-collateral totalling EUR 699,780 thousand. These are presented in the maturity bucket 0-3 months although their outflow date is not known and is dependent on the development of derivative fair values. A part of the financial liabilities presented as maturing during the next 12 months are callable. Based on the current forecast of this amount 30 – 50% is expected to be called. The company hedges all its funding to floating rate euros. In addition, all lending is hedged to floating rates. For evaluating the impact of derivatives, the interest flows of derivative assets and liabilities are shown on one line.

Liquid assets can be used to pay off future maturing liabilities. In addition, the company has well diversified funding sources, which allows the company to acquire new funding flexibly on various markets, and new funding can be acquired to cover outflows on maturing liabilities.

The company is a monetary policy counterparty of the Bank of Finland. The company has pledged loans to the Bank of Finland and can obtain credit from the central bank against these collaterals (Note 25 to the consolidated financial statements).

BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY

31 DEC 2017 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Liabilities to credit institutions	723,887	82,188	992,080	1,224,335	1,772,738	4,795,228
Liabilities to the public and public sector entities	63,397	80,650	305,032	193,646	115,315	758,039
Debt securities issued	7,188,833	4,513,837	11,922,995	3,698,975	859,616	28,184,257
Total	**7,976,117**	**4,676,674**	**13,220,107**	**5,116,956**	**2,747,669**	**33,737,524**

BREAKDOWN OF DERIVATIVES BY MATURITY

31 DEC 2017 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Derivative assets	50,377	176,489	473,695	550,167	182,590	1,433,318
Derivative liabilities	-537,816	-324,615	-1,010,354	-206,494	-136,754	-2,216,034
Interest flows related to derivatives assets and liabilities	209,142	382,079	1,148,097	232,795	542,065	2,514,177
Total	**-278,297**	**233,953**	**611,438**	**576,467**	**587,901**	**1,731,461**

BREAKDOWN OF FINANCIAL LIABILITIES BY MATURITY

31 DEC 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Liabilities to credit institutions	2,274,489	78,721	563,980	1,169,587	1,764,812	5,851,589
Liabilities to the public and public sector entities	36,571	176,232	376,097	220,595	113,152	922,647
Debt securities issued	4,676,960	6,147,547	12,614,496	2,091,948	683,321	26,214,272
Total	**6,988,020**	**6,402,501**	**13,554,573**	**3,482,130**	**2,561,285**	**32,988,508**

BREAKDOWN OF DERIVATIVES BY MATURITY

31 DEC 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	over 10 years	Total
Derivative assets	58,149	551,579	1,824,114	742,671	457,789	3,634,302
Derivative liabilities	-47,774	-185,837	-1,014,586	-183,305	-245,356	-1,676,859
Interest flows related to derivatives assets and liabilities	160,611	355,263	1,016,462	342,200	987,519	2,862,055
Total	**170,986**	**721,005**	**1,825,989**	**901,566**	**1,199,952**	**4,819,498**

Liquidity management
The company has presented the maturities of financial assets based on their maturity dates in Note 6. Despite the maturities shown in the table, the company has the following assets for managing liquidity. Irrespective of their contractual maturity dates, the assets can be sold in order to manage liquidity.

FINANCIAL ASSETS FOR MAINTAINING LIQUIDITY

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Cash and balances with central banks (deposits at central banks payable on demand)	3,554,182	988,949
Loans and advances to credit institutions		
Loans and advances to credit institutions payable on demand	8,551	7,530
Deposits	-	-
Repo agreements	-	-
Debt securities		
Debt securities classified as available-for-sale	5,628,591	6,024,134
Debt securities using the fair value option	111,785	449,445
Shares in investment funds	9,635	9,668
Total	**9,312,744**	**7,479,726**

Debt securities classified by issuer type are presented in Note 10.

MARKET LIQUIDITY RISK

Market liquidity risk means that the company would fail to realise or cover its position at the market price, because the market lacks depth or is not functioning due to a disruption. The company monitors the liquidity of markets and products on a continuous basis. In addition, established market standards are observed when derivative contracts are transacted. Almost all market values of debt securities valued at fair value are calculated based on quotations received from the market. For the remaining debt securities, the market value is calculated using other market information.

OPERATIONAL RISKS

Operational risk means the risk of loss due to insufficient or failed internal processes, insufficient or failed policies, systems or external factors. Operational risks also include risks arising from failure to comply with internal and external regulation (compliance risk), legal risks and reputational risk. Operational risks may result in expenses, payable compensation, loss of reputation, false information on position, risk and results or the interruption of operations.

Operational risks are recognised as part of the company's operations and processes. This has been implemented with an annual mapping of operational risk, which is carried out by departments through a self-assessment. The management of operational risks is the responsibility of each function and department. In addition, the company's Risk Management and Legal and Compliance departments support the other functions and departments and have the responsibility at the company level for coordinating the management of operational risks.

MuniFin uses various methods for managing operational risks. The company has internal policies approved by the Board and supplementing internal guidelines approved by the management in order to guide operations. Operational risks are also covered by the Risk Appetite Framework approved by the Board of Directors. Key duties and processes have been charted and described. Internal instructions and processes are updated on a regular basis, and the compliance with them is supervised. The tasks related to business activities, risk control, back office functions, documentation and accounting are separated. The company has adequate substitution systems to ensure the continuity of key functions. The expertise of the personnel is maintained and developed through regular development discussions and training plans. MuniFin has the insurance policies related to its operations and assesses the level of insurance cover on regular basis. MuniFin has a contingency plan for situations in which business operations are interrupted. The plan is designed to ensure that the company is able to continue functioning and to limit its losses in different disruptive scenarios. The annual mapping of operational risks and the operational risk event report process support the company's continuity planning.

MuniFin's compliance function continuously monitors the development of legislation and regulations issued by authorities relevant to the company's operations and ensures that any regulatory changes are appropriately responded to. The legislation and regulations concerning the operations of credit institutions have faced significant changes during the past few years and will continue to change in the future, which creates challenges for the company's compliance. The company has tried to minimise the risks related to this by active contact with the authorities and interest groups as well as organisation of the company's internal compliance function (incl. reporting, evaluation of effects).

The company has significant information system and business process related projects aimed at improving the quality, efficiency and regulatory compliance of current operations. The extent of these projects creates operational risks that the company strives to minimise by developing and implementing models related to project management and monitoring (incl. regular reporting) and ensuring sufficient resources. The risks related to development projects are surveyed and monitored regularly. In addition, the projects have been audited by internal audit.

The company has an approval process for new products and services. The process aims to ensure that all material risks and operational requirements are taken into account when developing new products and services. The company does not have material outsourced functions in its operations. The main outsourced items are related to custody of securities, IT support and back-up facilities of IT-servers and internal audit.

The realisation of operational risks is monitored with systematic operational risk event reporting, which is used to change operating principles or implement other measures to reduce operational risks where necessary. Operational risk events are reported the Executive Management Team and the Board of Directors. No material losses were incurred as a result of operational risks in 2017.

NOTE 3 CAPITAL ADEQUACY MANAGEMENT PRINCIPLES

MuniFin's objectives regarding equity in relation to risk taking and the operating environment are defined as part of the annual planning. The planning horizon extends to the following five years, in order to be able to predict the business performance trend and the sufficiency of own funds with respect to the increasing capital requirements arising from changing regulation and to be able to react to potential needs for additional capitalisation in sufficient time. The Board of Directors approves the capital adequacy plan and monitors it. The company updates its capital adequacy plan annually.

Controlling capital adequacy is continuous and an essential part of the company's strategic planning process, which covers setting strategic goals, specifying development projects and making financial forecasts for the following years. This is done in co-operation with management and the Board. The Board of the company approves the final strategy. Management ensures that the operative measures of the company correspond with the principles determined in the strategy approved by the Board. As part of the annual planning, the management prepares a business plan for the coming year and business forecasts for the years that follow. The company's risk position and its effect on the company's financial status are also evaluated. Regular risk analyses as well as various stress test scenarios are used for evaluating and measuring risks. Based on these, the capital adequacy plan is updated annually and actions needed to strengthen own funds are determined. The adequacy of own funds is also monitored through monthly business analyses.

The Group calculates its capital adequacy based on the EU Capital Requirements Regulation (EU 575/2013) and Directive (2013/36/EU). The capital adequacy requirement for credit risk is calculated using the standardised approach, and the capital adequacy requirement for operative risks using the basic indicator approach. As the Group has neither a trading book nor share and commodity positions, only currency risks are taken into account in the capital adequacy calculations for market risk. As the company hedges against exchange rate risks by using derivative contracts to translate all foreign currency denominated funding into euros, the company's currency position is very small. The credit ratings given by Standard & Poor's, Moody's Investor Service and Fitch Ratings are used for determining the risk weights used in the capital adequacy calculations. The aforementioned companies are credit rating institutions approved by the Finnish Financial Supervisory Authority for capital adequacy calculations. In capital adequacy calculations for the credit risk, MuniFin uses methods for reducing the credit risk such as guarantees provided by municipalities as well as deficiency guarantees given by the Republic of Finland. For derivatives, netting agreements, collateral agreements (ISDA/Credit Support Annex) and guarantees granted by the Municipal Guarantee Board are used for reducing the capital adequacy requirement related to the counterparty risk of derivative counterparties.

Disclosures on capital adequacy are provided in Notes 44-48 to the Consolidated Financial Statements and in Notes 47-50 to the Parent Company's Financial Statements. In addition to the Report of the Board of Directors and the Financial Statements, MuniFin publishes a separate Pillar III Disclosure Report on capital adequacy and risk management, which is available in English on the company's website.

Notes to the statement of financial position

NOTE 4. FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS

31 DEC 2017 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	3,554,182	-	-	-	-	-	3,554,182	3,554,182
Loans and advances to credit institutions	1,251,391	-	-	-	-	-	1,251,391	1,251,391
Loans and advances to the public and public sector entities	21,497,205	-	-	153,642	-	-	21,650,847	23,440,944
Debt securities	-	5,628,591	753,859	111,785	-	-	6,494,234	6,494,663
Shares and participations	-	9,662	-	-	-	-	9,662	9,662
Derivative contracts	-	-	-	-	206,388	1,226,930	1,433,318	1,433,318
Other assets	148,205	-	-	-	-	-	148,205	148,205
Total	**26,450,983**	**5,638,253**	**753,859**	**265,427**	**206,388**	**1,226,930**	**34,541,839**	**36,332,366**

Loans and advances to the public sector entities includes EUR 431,732 thousand receivables based on leasing agreements.

In 2017 fair value hedge accounting is applied to EUR 3,811,080 thousand of debt securities classified as available-for-sale financial assets. Loans and advances to the public and public sector entities includes EUR 7,068,042 thousand in loans and receivables included in fair value hedge accounting. Other assets includes EUR 148,205 thousands of cash collateral given to central counterparties.

FINANCIAL LIABILITIES

31 DEC 2017 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	3,902,480	-	-	-	3,902,480	3,978,548
Liabilities to the public and public sector entities	646,558	-	-	-	646,558	650,712
Debt securities issued	22,470,615	3,833,346	-	-	26,303,961	26,356,850
Derivative contracts	-	-	258,308	1,957,725	2,216,034	2,216,034
Total	**27,019,654**	**3,833,346**	**258,308**	**1,957,725**	**33,069,033**	**33,202,145**

In 2017 fair value hedge accounting is applied to EUR 23,778,197 thousand of financial liabilities at amortised cost.

FINANCIAL ASSETS

31 DEC 2016 (EUR 1,000)	Loans and receivables	Available-for-sale financial assets	Held-to-maturity investments	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Cash and balances with central banks	988,949	-	-	-	-	-	988,949	988,949
Loans and advances to credit institutions	438,811	-	-	-	-	-	438,811	438,811
Loans and advances to the public and public sector entities	21,009,974	-	-	185,765	-	-	21,195,739	23,246,456
Debt securities	-	6,024,134	995,858	449,445	-	-	7,469,437	7,469,787
Shares and participations	-	9,695	-	-	-	-	9,695	9,695
Derivative contracts	-	-	-	-	392,715	3,241,587	3,634,302	3,634,302
Other assets	49,838	-	-	-	-	-	49,838	49,838
Total	**22,487,573**	**6,033,829**	**995,858**	**635,209**	**392,715**	**3,241,587**	**33,786,772**	**35,837,840**

Loans and advances to the public sector entities includes EUR 285,987 thousand of receivables based on leasing agreements.

In 2016 fair value hedge accounting is applied to EUR 4,052,339 thousand of debt securities classified as available-for-sale financial assets. Loans and advances to the public and public sector entities includes EUR 6,819,068 thousand in loans and receivables included in fair value hedge accounting. Other assets includes EUR 49,838 thousands of cash collateral given to central counterparties.

FINANCIAL LIABILITIES

31 DEC 2016 (EUR 1,000)	Financial liabilities at amortised cost	Fair value option	Held-for-trading	Derivatives in hedge accounting	Total	Fair value
Liabilities to credit institutions	5,362,317	-	-	-	5,362,317	5,531,362
Liabilities to the public and public sector entities	872,919	-	-	-	872,919	888,677
Debt securities issued	23,444,821	1,139,348	-	-	24,584,169	24,650,226
Derivative contracts	-	-	362,154	1,314,705	1,676,859	1,676,859
Total	**29,680,057**	**1,139,348**	**362,154**	**1,314,705**	**32,496,265**	**32,747,124**

Fair value hedge accounting is applied to EUR 23,907,845 thousand of financial liabilities at amortised cost in 2016.

NOTE 5. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

		Fair value			
31 DEC 2017 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,817,511	1,815,904	1,607	-	1,817,511
Shares in investment funds	9,662	9,662	-	-	9,662
Fair value option					
Debt securities	111,785	42,750	69,035	-	111,785
Loans and advances to the public and public sector entities	153,642	-	153,642	-	153,642
Held-for-trading					
Derivative assets	206,388	-	167,692	38,696	206,388
Derivatives in hedge accounting	1,226,930	-	1,226,930	-	1,226,930
Total financial assets at fair value	**3,525,918**	**1,868,316**	**1,618,905**	**38,696**	**3,525,918**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	7,068,042	-	7,562,122	-	7,562,122
Available-for-sale financial assets					
Debt securities	3,811,080	3,811,080	-	-	3,811,080
Total in fair value hedge accounting	**10,879,122**	**3,811,080**	**7,562,122**	**-**	**11,373,202**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	3,554,182	3,554,182	-	-	3,554,182
Loans and advances to credit institutions	1,251,391	1,251,391	-	-	1,251,391
Loans and advances to the public and public sector entities	14,429,162	-	15,725,180	-	15,725,180
Held-to-maturity					
Debt securities	753,859	-	749,409	4,878	754,288
Total financial assets at amortised cost	**19,988,594**	**4,805,573**	**16,474,589**	**4,878**	**21,285,041**
Total financial assets	**34,393,634**	**10,484,969**	**25,655,617**	**43,575**	**36,184,161**

31 DEC 2017 (EUR 1,000)	Carrying amount	Fair value			
		Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	3,833,346	-	3,833,346	-	3,833,346
Held-for-trading					
Derivative liabilities	258,308	-	219,612	38,696	258,308
Derivatives in hedge accounting	1,957,725	-	1,957,725	-	1,957,725
Total financial liabilities at fair value	**6,049,379**	**-**	**6,010,683**	**38,696**	**6,049,379**
In fair value hedge accounting					
Liabilities to credit institutions	3,198,950	-	3,275,012	-	3,275,012
Liabilities to the public and public sector entities	617,371	-	621,252	-	621,252
Debt securities issued	19,961,876	-	20,044,115	-	20,044,115
Total in fair value hedge accounting	**23,778,197**	**-**	**23,940,379**	**-**	**23,940,379**
Financial liabilities at amortised cost					
Liabilities to credit institutions	703,530	-	703,537	-	703,537
Liabilities to the public and public sector entities	29,188	-	19,621	9,839	29,460
Debt securities issued	2,508,739	-	1,535,834	943,555	2,479,389
Total financial liabilities at amortised cost	**3,241,456**	**-**	**2,258,992**	**953,394**	**3,212,386**
Total financial liabilities	**33,069,033**	**-**	**32,210,054**	**992,091**	**33,202,145**

VALUE OF ITEMS INCLUDED HEDGE ACCOUNTING

(EUR 1,000)	31 DEC 2017	31 DEC 2016	Recognised in the income statement 2017
Financial assets			
Portfolio hedge accounting			
Loans and advances to the public and public sector entities	128,136	213,373	-85,238
Hedging instruments	-110,438	-197,474	87,037
Portfolio hedge accounting, net	**17,698**	**15,899**	**1,799**
Fair value hedge accounting			
Loans and advances to the public and public sector entities	31,507	44,344	-12,837
Hedging instruments	-31,755	-43,936	12,181
Fair value hedge accounting, net	**-248**	**408**	**-656**
Financial liabilities			
Fair value hedge accounting			
Liabilities to credit institutions	-404,663	-519,016	114,352
Liabilities to the public and public sector entities	-56,718	-75,203	18,485
Debt securities issued	154,820	-30,934	185,754
Hedging instruments	306,070	623,149	-317,079
Fair value hedge accounting, net	**-491**	**-2,004**	**1,512**
Total hedge accounting	**16,959**	**14,303**	**2,655**

IMPACT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS ON THE INCOME STATEMENT DUE TO THE APPLICATION OF HEDGE ACCOUNTING

(EUR 1,000)	31 DEC 2017	31 DEC 2016	Impact of interest rate risk on the income statement in 2017	Impact on fair value reserve in 2017 *	Change in fair value *
Financial assets					
Fair value hedge accounting					
Debt securities	74,497	102,062	43,879	8,991	24,495
Hedging instruments	-43,879	-82,683	-43,879	-	-
Fair value hedge accounting, net	**30,618**	**19,379**	**0**	**8,991**	**24,495**

* Figures in columns Impact on fair value reserve and Change in fair value do not include deferred taxes.

		Fair value			
31 DEC 2016 (EUR 1,000)	**Carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value					
Available-for-sale financial assets					
Debt securities	1,971,795	1,968,603	3,193	-	1,971,795
Shares in investment funds	9,695	9,695	-	-	9,695
Fair value option					
Debt securities	449,445	15,573	433,872	-	449,445
Loans and advances to the public and public sector entities	185,765	-	185,765	-	185,765
Held-for-trading					
Derivative assets	392,715	-	325,262	67,453	392,715
Derivatives in hedge accounting	3,241,587	-	3,241,587	-	3,241,587
Total financial assets at fair value	**6,251,002**	**1,993,871**	**4,189,678**	**67,453**	**6,251,002**
In fair value hedge accounting					
Loans and receivables					
Loans and advances to the public and public sector entities	6,819,068	-	7,271,774	-	7,271,774
Available-for-sale financial assets					
Debt securities	4,052,339	4,052,339	-	-	4,052,339
Total in fair value hedge accounting	**10,871,407**	**4,052,339**	**7,271,774**	**-**	**11,324,113**
Financial assets at amortised cost					
Loans and receivables					
Cash and balances with central banks	988,949	988,949	-	-	988,949
Loans and advances to credit institutions	438,811	438,811	-	-	438,811
Loans and advances to the public and public sector entities	14,190,906	-	15,788,918	-	15,788,918
Held-to-maturity					
Debt securities	995,858	-	996,208	-	996,208
Total financial assets at amortised cost	**16,614,525**	**1,427,760**	**16,785,126**	**-**	**18,212,887**
Total financial assets	**33,736,934**	**7,473,970**	**28,246,578**	**67,453**	**35,788,002**

31 DEC 2016 (EUR 1,000)	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
Financial liabilities at fair value					
Fair value option					
Debt securities issued	1,139,348	-	1,139,348	-	1,139,348
Held-for-trading					
Derivative liabilities	362,153	-	294,700	67,453	362,153
Derivatives in hedge accounting	1,314,705	-	1,314,705	-	1,314,705
Total financial liabilities at fair value	**2,816,207**	**-**	**2,748,754**	**67,453**	**2,816,207**
In fair value hedge accounting					
Liabilities to credit institutions	3,162,981	-	3,332,007	-	3,332,007
Liabilities to the public and public sector entities	693,109	-	710,025	-	710,025
Debt securities issued	20,051,756	-	20,063,292	-	20,063,292
Total in fair value hedge accounting	**23,907,846**	**-**	**24,105,324**	**-**	**24,105,324**
Financial liabilities at amortised cost					
Liabilities to credit institutions	2,199,337	-	2,199,355	-	2,199,355
Liabilities to the public and public sector entities	179,811	-	178,652	-	178,652
Debt securities issued	3,393,064	-	3,447,585	-	3,447,585
Total financial liabilities at amortised cost	**5,772,211**	**-**	**5,825,592**	**-**	**5,825,592**
Total financial liabilities	**32,496,265**	**-**	**32,679,671**	**67,453**	**32,747,124**

LEVEL 1

Valuation is based on quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The prices used are unadjusted. A market is considered to be functioning if trading is frequent and price data is regularly available. MuniFin bases its valuations for some instruments on quoted prices for identical instruments from Bloomberg and Reuters. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. These quotes therefore represent the fair value for these products. Level 1 financial assets comprise mainly investments in debt securities.

LEVEL 2

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

The fair values may be based on quotations of similar assets or liabilities in active markets or quotations of equivalent or similar assets or liabilities in markets that are not active. The fair values may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include interest rates and profit curves for which regular quotations are available, implicit volatilities and credit margins. The requirement is that the input data is observable on regular intervals. If a financial asset or a financial liability has a fixed maturity, the level 2 input data must be observable to a material extent during the existence of a financial asset or liability.

Level 2 valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds and lending.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial markets. OTC derivatives are classified to level 2, if all material input data used in valuation models can be verified on functioning markets.

LEVEL 3

Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Level 3 valuation includes unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available. MuniFin's level 3 input is the historical volatility, which is only used in cases where implied volatility is not available.

Level 3 valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise equity-linked OTC-derivatives and embedded derivatives which have been bifurcated from the company's issued debt securities.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy level 3.

TRANSFERS IN THE FAIR VALUE HIERARCHY
During 2017 and 2016 financial years, no reclassifications have been made between Level 1 and Level 2.

During 2017 financial assets have been transfered into Level 3 due to changes in input data used in the valuation.The transfers are presented using fair values of 31 December 2017.

	Derivative assets	Derivative liabilities	Debt securities	
2017 (EUR 1,000)	**Held-for-trading**	**Held-for-trading**	**Held to maturity**	**Total**
1 Jan 2017	67,453	-67,453	-	0
Change in fair value in the income statement	-9,465	9,465	-	0
Purchases	22,188	-22,188	-	0
Sales	-41,480	41,480	-	0
Transfers into Level 3	-	-	4,878	4,878
Transfers out of Level 3	-	-	-	-
31 Dec 2017	**38,696**	**-38,696**	**4,878**	**4,878**

During 2016 financial year, no reclassifications have been made between Level 1 and Level 2.

During 2016 no financial assets or liabilities have been transfered into Level 3. Due to changes in input data used in the valuation, derivatives and embedded derivatives bifurcated from issued bonds have been transferred from Level 3 to Level 2. The transfers are presented using fair values of 31 December 2015.

	Derivative assets	Derivative liabilities	
2016 (EUR 1,000)	**Held-for-trading**	**Held-for-trading**	**Total**
1 Jan 2016	121,720	-121,720	0
Change in fair value in the income statement	-13,078	13,078	0
Purchases	18,843	-18,843	0
Sales	-32,510	32,510	0
Transfers into level 3	-	-	-
Transfers out of level 3	-27,521	27,521	0
31 Dec 2016	**67,454**	**-67,454**	**0**

SENSITIVITY ANALYSIS OF UNOBSERVABLE INPUTS
Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2014 - 2017 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 40.4 million (2016: EUR 47.2 million) and the fair value of the embedded derivative of the debt instrument decreases by EUR 40.4 million (2016: EUR 47.2 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 24.7 million (2016: EUR 33.8 million) and the fair value of the embedded derivative of the debt instrument increases by EUR 24.7 million (2016: EUR 33.8 million).

NOTE 6. BREAKDOWN OF THE BALANCE SHEET BY MATURITY

31 DEC 2017 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Cash and balances with central banks	3,554,182	-	-	-	-	3,554,182
Loans and advances to credit institutions	1,235,721	-	-	-	15,670	1,251,391
Loans and advances to the public and public sector entities	322,221	1,245,432	6,885,017	3,921,096	9,277,081	21,650,847
Debt securities	1,159,874	773,454	3,927,457	631,842	1,607	6,494,234
Shares and participations	-	-	-	-	9,662	9,662
Derivative contracts	50,377	176,489	473,695	550,167	182,590	1,433,318
Intangible assets	-	-	-	10,196	-	10,196
Tangible assets	-	-	1,881	-	713	2,594
Other assets	157,862	-	-	-	-	157,862
Accrued income and prepayments	100,775	72,301	746	27	3	173,853
Total	**6,581,012**	**2,267,677**	**11,288,796**	**5,113,328**	**9,487,327**	**34,738,139**

31 DEC 2017 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	711,359	30,629	693,655	978,205	1,488,633	3,902,480
Liabilities to the public and public sector entities	57,284	73,031	263,351	169,890	83,003	646,558
Debt securities issued	7,028,322	4,165,987	10,885,693	3,517,107	706,851	26,303,961
Derivative contracts	537,816	324,615	1,010,354	206,494	136,754	2,216,034
Other liabilities	2,587	-	-	-	-	2,587
Accrued expenses and deferred income	61,625	62,887	31	27	3	124,574
Deferred tax liabilities	202,522	-	-	-	-	202,522
Equity	-	-	-	-	1,339,422	1,339,422
Total	**8,601,516**	**4,657,149**	**12,853,084**	**4,871,724**	**3,754,667**	**34,738,139**

Liabilities and hedging derivatives that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 30-50% of its callable liabilities in 2018. In 2017, the company called 35% of its callable liabilities.

31 DEC 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Cash and balances with central banks	988,949	-	-	-	-	988,949
Loans and advances to credit institutions	429,130	-	-	-	9,681	438,811
Loans and advances to the public and public sector entities	256,276	1,406,061	6,656,690	4,107,314	8,769,398	21,195,739
Debt securities	1,690,641	948,826	3,788,300	1,038,477	3,193	7,469,437
Shares and participations	-	-	-	-	9,695	9,695
Derivative contracts	58,149	551,579	1,824,114	742,671	457,789	3,634,302
Intangible assets	-	-	-	6,776	-	6,776
Tangible assets	-	-	1,709	-	753	2,462
Other assets	62,946	-	-	-	-	62,946
Accrued income and prepayments	134,173	106,225	2,644	19	7	243,068
Total	**3,620,265**	**3,012,691**	**12,273,457**	**5,895,257**	**9,250,516**	**34,052,186**

31 DEC 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,258,289	47,421	363,254	977,491	1,715,862	5,362,317
Liabilities to the public and public sector entities	28,902	162,231	363,593	232,531	85,662	872,919
Debt securities issued	4,463,726	5,697,652	11,755,878	2,013,916	652,997	24,584,169
Derivative contracts	47,774	185,837	1,014,586	183,305	245,356	1,676,859
Other liabilities	4,444	-	-	-	-	4,444
Accrued expenses and deferred income	93,608	90,524	9,851	869	7	194,860
Deferred tax liabilities	172,185	-	-	-	-	172,185
Equity	-	-	-	-	1,184,433	1,184,433
Total	**7,068,929**	**6,183,666**	**13,507,162**	**3,408,112**	**3,884,317**	**34,052,186**

Liabilities that may be called before maturity have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2017. In 2016, the company called 40% of its callable liabilities.

NOTE 7. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

The following financial assets and liabilities are subject to enforceable master netting agreements:
Cash given as collateral is included in the balance sheet line item Loans and advances to credit institutions, excluding cash given as collateral to central counterparties, which is presented on the balance sheet in line item Other assets. Cash received as collateral is included in the balance sheet on line Liabilities to credit institutions.

				Amounts not offset in the statement of financial position		
31 DEC 2017 (EUR 1,000)	**Carrying amount, gross**	**Offset in the statement of financial position, gross**	**Carrying amount, net**	**Received cash collateral**	**Given cash collateral***	**Net**
Financial assets						
Derivative contracts	1,433,318	-	1,433,318	699,780	-	733,538
Total	**1,433,318**	**-**	**1,433,318**	**699,780**	**-**	**733,538**
Financial liabilities						
Derivative contracts	2,216,034	-	2,216,034	-	1,375,375	840,659
Total	**2,216,034**	**-**	**2,216,034**	**-**	**1,375,375**	**840,659**

The company has not offset any financial assets or liabilities in its statement of financial position in 2017.

*Includes EUR 148,205 thousands of cash collateral given to central counterparties.

				Amounts not offset in the statement of financial position		
31 DEC 2016 (EUR 1,000)	**Carrying amount, gross**	**Offset in the statement of financial position, gross**	**Carrying amount, net**	**Received cash collateral**	**Given cash collateral***	**Net**
Financial assets						
Derivative contracts	3,634,302	-	3,634,302	2,157,680	-	1,476,622
Total	**3,634,302**	**-**	**3,634,302**	**2,157,680**	**-**	**1,476,622**
Financial liabilities						
Derivative contracts	1,676,859	-	1,676,859	-	471,438	1,205,421
Total	**1,676,859**	**-**	**1,676,859**	**-**	**471,438**	**1,205,421**

The company has not offset any financial assets or liabilities in its statement of financial position in 2016.

*Includes EUR 49,838 thousands of cash collateral given to central counterparties.

NOTE 8. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Cash	5	7
Central bank deposits payable on demand	3,554,177	988,943
Cash and balances with central banks	**3,554,182**	**988,949**
Loans and advances to credit institutions payable on demand	8,551	7,530
Total cash and cash equivalents	**3,562,733**	**996,480**

NOTE 9. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

31 DEC 2017 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	61,220	8,250	52,970
Foreign credit institutions	1,190,171	301	1,189,870
Total	**1,251,391**	**8,551**	**1,242,840**

Loans and advances to credit institutions Other than payable on demand does not contain reverse repo agreements at year end 2017.

31 DEC 2016 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	125,231	6,450	118,781
Foreign credit institutions	313,580	1,080	312,500
Total	**438,811**	**7,530**	**431,281**

Loans and advances to credit institutions Other than payable on demand does not contain reverse repo agreements at year end 2016.

NOTE 10. DEBT SECURITIES

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**661,318**	**661,318**
Municipal commercial papers	-	661,318	661,318
Available-for-sale	**1,845,609**	**-**	**1,845,609**
Government bonds	450,170	-	450,170
Bonds issued by other public sector entities	1,395,439	-	1,395,439
Fair value option	**-**	**-**	**-**
Government treasury bills	-	-	-
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	-	-
Total	**1,845,609**	**661,318**	**2,506,927**
Eligible for central bank refinancing	1,583,001	-	1,583,001

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**92,541**	**92,541**
Commercial papers	-	87,670	87,670
Other debt securities	-	4,871	4,871
Available-for-sale	**3,781,374**	**1,607**	**3,782,981**
Bank bonds	3,781,374	-	3,781,374
Other debt securities	-	1,607	1,607
Fair value option	**42,750**	**69,035**	**111,785**
Bank commercial papers	-	69,035	69,035
Bank bonds	42,750	-	42,750
Total	**3,824,124**	**163,182**	**3,987,307**
Eligible for central bank refinancing	3,385,314	40,028	3,425,343
Debt securities total 31 Dec 2017	**5,669,734**	**824,500**	**6,494,234**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2017.

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES

31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**881,620**	**881,620**
Municipal commercial papers	-	881,620	881,620
Available-for-sale	**2,010,365**	**-**	**2,010,365**
Government bonds	527,317	-	527,317
Bonds issued by other public sector entities	1,483,048	-	1,483,048
Fair value option	**-**	**68,652**	**68,652**
Government treasury bills	-	48,625	48,625
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	20,028	20,028
Total	**2,010,365**	**950,273**	**2,960,638**
Eligible for central bank refinancing	1,839,015	20,028	1,859,042

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES

31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**114,238**	**114,238**
Commercial papers	-	91,012	91,012
Other debt securities	-	23,226	23,226
Available-for-sale	**4,010,577**	**3,193**	**4,013,769**
Bank bonds	4,010,577	-	4,010,577
Other debt securities	-	3,193	3,193
Fair value option	**15,573**	**365,219**	**380,792**
Bank commercial papers	-	365,219	365,219
Bank bonds	15,573	-	15,573
Total	**4,026,149**	**482,650**	**4,508,799**
Eligible for central bank refinancing	3,516,932	90,048	3,606,980
Debt securities total 31 Dec 2016	**6,036,514**	**1,432,923**	**7,469,437**

Debt securities do not contain any securities given as collateral for reverse repo agreements at year end 2016.

RECLASSIFICATION (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
	Total	**206,902**

(EUR 1,000)	Impact on fair value reserve, if not reclassified	Valuation difference released from fair value reserve
2017	139	-
2016	4,194	24
2015	2,018	84
2014	7,001	92
2013	1,139	167
2012	2,182	272
2011	5,238	652
2010	3,903	765
2009	-3,487	953
2008	-22,319	852
	8	**3,861**

NOTE 11. SHARES AND PARTICIPATIONS

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,635	27	9,662	-
Total	**9,635**	**27**	**9,662**	**-**

31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Available-for-sale	9,668	27	9,695	-
Total	**9,668**	**27**	**9,695**	**-**

NOTE 12. DERIVATIVE CONTRACTS

31 DEC 2017 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,454,724	16,163,172	10,432,188	31,050,085	531,951	-369,866
Cleared by the central counterparty	-	3,597,917	1,758,500	5,356,417	19,821	-40,314
Currency derivatives						
Cross currency interest rate swaps	5,287,321	10,681,946	1,665,703	17,634,970	694,979	-1,587,860
Total	**9,742,045**	**26,845,118**	**12,097,891**	**48,685,054**	**1,226,930**	**-1,957,725**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	577,565	3,220,905	2,640,360	6,438,830	144,237	-138,367
Cleared by the central counterparty	54,400	2,554,967	2,275,464	4,884,831	25,037	-56,989
Interest rate options	-	162,175	-	162,175	628	-628
Currency derivatives						
Cross currency interest rate swaps	27,737	5,289	-	33,026	186	-146
Forward exchange contracts	3,846,382	-	-	3,846,382	5,127	-62,956
Equity derivatives	1,438,846	766,070	-	2,204,916	56,078	-56,078
Other derivatives	-	20,000	-	20,000	133	-133
Total	**5,890,530**	**4,174,438**	**2,640,360**	**12,705,329**	**206,388**	**-258,308**
Grand total	**15,632,576**	**31,019,557**	**14,738,251**	**61,390,383**	**1,433,318**	**-2,216,034**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are hedging derivatives for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

31 DEC 2016 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,388,063	14,736,546	12,677,923	31,802,532	650,615	-470,835
Cleared by the central counterparty*	10,000	2,337,940	144,100	2,492,040	11,776	-5,749
Interest rate options	6,006	-	-	6,006	0	0
Currency derivatives						
Cross currency interest rate swaps	4,654,761	11,890,445	2,260,638	18,805,844	2,590,972	-843,870
Total	**9,048,830**	**26,626,991**	**14,938,561**	**50,614,382**	**3,241,587**	**-1,314,705**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	482,176	3,077,964	2,771,390	6,331,530	190,920	-193,443
Cleared by the central counterparty*	-	300,000	85,752	385,752	2,575	-172
Interest rate options	-	245	42,000	42,245	546	-550
Currency derivatives						
Cross currency interest rate swaps	-	9,708	-	9,708	841	-841
Forward exchange contracts	1,032,416	161,275	-	1,193,691	35,502	-2,412
Equity derivatives	571,265	2,659,624	-	3,230,889	158,284	-158,284
Other derivatives	-	55,500	-	55,500	6,622	-6,622
Total	**2,085,857**	**5,964,316**	**2,813,390**	**10,863,563**	**392,715**	**-362,153**
Grand total	**11,134,687**	**32,591,307**	**17,751,951**	**61,477,945**	**3,634,302**	**-1,676,859**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are hedging derivatives for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

* In May 2016 MuniFin commenced to clear OTC derivative contracts through central counterparty.

NOTE 13. INTANGIBLE ASSETS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
IT systems	10,196	6,776
Total	**10,196**	**6,776**

NOTE 14. TANGIBLE ASSETS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Real estate	713	753
Office renovation expenses	135	106
Other tangible assets	1,746	1,603
Total	**2,594**	**2,462**

NOTE 15. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL YEAR

	Intangible assets	Tangible assets		
31 DEC 2017 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	12,542	1,207	5,099	6,306
+ Additions	4,697	-	931	931
– Disposals	-	-	-359	-359
Acquisition cost 31 Dec	17,239	1,207	5,671	6,878
Accumulated depreciation 1 Jan	5,766	454	3,390	3,844
– Accumulated depreciation on disposals	-	-	-258	-258
+ Depreciation for the financial year	1,276	40	658	698
Accumulated depreciation 31 Dec	7,043	494	3,791	4,284
Carrying amount 31 Dec	**10,196**	**713**	**1,881**	**2,594**

	Intangible assets	Tangible assets		
31 DEC 2016 (EUR 1,000)	**Total**	**Real estate**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	10,491	1,207	4,513	5,719
+ Additions	2,051	-	1,096	1,096
– Disposals	-	-	-509	-509
Acquisition cost 31 Dec	12,542	1,207	5,100	6,306
Accumulated depreciation 1 Jan	4,679	413	3,008	3,421
– Accumulated depreciation on disposals	-	-	-308	-308
+ Depreciation for the financial year	1,087	40	691	731
Accumulated depreciation 31 Dec	5,766	453	3,391	3,844
Carrying amount 31 Dec	**6,776**	**753**	**1,709**	**2,462**

NOTE 16. OTHER ASSETS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Leasing receivables	6,737	4,387
Given cash collateral to Central Counterparty Clearing House	148,205	49,838
Other	2,920	8,721
Total	**157,862**	**62,946**

NOTE 17. ACCRUED INCOME AND PREPAYMENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Interest	171,639	240,780
Other	2,214	2,287
Total	**173,853**	**243,068**

NOTE 18. DEFERRED TAX ASSETS AND LIABILITIES

DEFERRED TAX ASSETS (EUR 1,000)	31 DEC 2016	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 DEC 2017
Other temporary differences					
On fair value reserve	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

DEFERRED TAX LIABILITIES (EUR 1,000)	31 DEC 2016	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 DEC 2017
Other temporary differences					
On fair value reserve	4,880	-	2,356	-	7,236
On change in cumulative depreciation difference	460	773	-	-	1,233
On change in voluntary provisions	164,996	27,110	-	-	192,106
On reversing the accrued interest of the AT1 capital loan booked in the separate financial statements of the parent company	2,364	3,150	-	-3,150	2,364
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	-515	98	-	-	-417
Total	**172,185**	**31,131**	**2,356**	**-3,150**	**202,522**

The different treatment of the AT1 capital loan in the consolidated and parent company financial statements creates deferred taxes.

DEFERRED TAX ASSETS (EUR 1,000)	31 DEC 2015	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 DEC 2016
Other temporary differences					
On fair value reserve	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**

DEFERRED TAX LIABILITIES (EUR 1,000)	31 DEC 2015	Recognised in the income statement	Recognised in the statement of comprehensive income	Recognised in equity	31 DEC 2016
Other temporary differences					
On fair value reserve	2,838	-	2,041	-	4,880
On change in cumulative depreciation difference	172	288	-	-	460
On change in voluntary provisions	135,396	29,600	-	-	164,996
On reversing the accrued interest of the AT1 capital loan booked in the separate financial statements of the parent company	783	3,156	-	-1,575	2,364
On reversing the amortisation of the AT1 capital loan transaction expenses booked in the parent company financial statements	-613	98	-	-	-515
Total	**138,576**	**33,142**	**2,041**	**-1,575**	**172,185**

The different treatment of the AT1 capital loan in the consolidated and parent company financial statements creates deferred taxes.

NOTE 19. LIABILITIES TO CREDIT INSTITUTIONS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Bilateral loans to credit institutions	3,202,700	3,204,637
Received collateral on derivatives	699,780	2,157,680
Total	**3,902,480**	**5,362,317**

NOTE 20. DEBT SECURITIES ISSUED

	31 DEC 2017		31 DEC 2016	
(EUR 1,000)	Carrying amount	Nominal value	Carrying amount	Nominal value
Bonds	22,470,615	23,239,066	23,444,821	25,456,304
Other	3,833,346	3,841,305	1,139,348	1,141,258
Total	**26,303,961**	**27,080,371**	**24,584,169**	**26,597,562**

All parent company funding is guaranteed by the Municipal Guarantee Board.

NOTE 21. OTHER LIABILITIES

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Other	2,587	4,444
Total	**2,587**	**4,444**

NOTE 22. ACCRUED EXPENSES AND DEFERRED INCOME

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Interest	106,176	185,518
Other	18,398	9,342
Total	**124,574**	**194,860**

NOTE 23. EQUITY

(EUR 1,000)	Number of shares	Share capital
1 Jan 2016	39 063 798	42,583
31 Dec 2016	39 063 798	42,583
31 Dec 2017	39 063 798	42,583

There were no changes to the number of shares during the financial year:

The shares in the parent company are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. All issued shares have been paid in full.

Reserves in equity:
The reserve fund is restricted equity referred to in Chapter 8, Section 1 of the Limited Liability Companies Act. The fair value reserve comprises changes in the values of available-for-sale financial assets. The proportion of payment made for shares that is not recorded in share capital is recognised in the reserve for invested non-restricted equity. Under the terms of the parent company's 2009 share issue the funds collected through the share issue are recorded in the reserve for invested non-restricted equity.

Other issued equity instruments
Instruments included in AT1 capital contains an unsecured EUR 350 million debenture loan with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. Due to terms stated above AT1 capital loan is recognised as equity in consolidated financial statements.

Detailed descriptions of the equity instruments are included in the Pillar III report that is available in English on the company's website. Pillar III report is a separate report from this financial statements.

(1,000 EUR)	31 DEC 2017	31 DEC 2016
Share capital	42,583	42,583
Reserve fund	277	277
Fair value reserve	28,944	19,519
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	879,799	734,107
Total equity attributable to parent company equity holders	**991,969**	**836,852**
Non-controlling interest	**-**	**127**
Other equity instruments issued	350,000	350,000
Transaction costs deducted from other equity instruments issued	-2,546	-2,546
Total other equity instruments issued	**347,454**	**347,454**
Total equity	**1,339,422**	**1,184,433**

NOTE 24. CONTINGENT ASSETS AND LIABILITIES

The accrued interest on the company's AT1 capital loan is a contingent liability, totalling 9.5 million as per 31th December 2017. The contingent liability will be realised as a deduction of equity once the company decides on the payment of interest. At the end of 2016 the company had a contingent liability of 9.5 million, which realised upon interest payment on 1st April 2017. The group does not have any contingent assets in 2017 or 2016.

NOTE 25. PLEDGED ASSETS

LIABILITIES AND COLLATERAL (EUR 1,000)	31 DEC 2017	31 DEC 2016
Loans pledged to the central bank	2,476,968	2,284,380
Loans pledged to the Municipal Guarantee Board	18,581,280	18,364,852
Total	**21,058,248**	**20,649,231**

Pledged assets:

1) MuniFin is a monetary policy counterparty approved by the central bank (the Bank of Finland), and, for this purpose, a sufficient amount of collateral has been pledged to the central bank for possible operations related to this counterparty position.
2) MuniFin has pledged amount of loans shown in the table to the Municipal Guarantee Board. The Municipal Guarantee Board guarantees MuniFin's funding and MuniFin places collateral for the Municipal Guarantee Board's guarantees as defined in the Act on the Municipal Guarantee Board.

NOTE 26. OFF-BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Loan commitments	2,270,346	1,883,319
Total	**2,270,346**	**1,883,319**

NOTE 27. LEASE AND OTHER RENTAL COMMITMENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Maturing within one year	1,392	1,593
Maturing in one to five years	806	2,410
Maturing in more than five years	-	-
Total	**2,198**	**4,003**

NOTE 28. RELATED-PARTY TRANSACTIONS

MuniFin's related parties are shareholders whose ownership and corresponding voting in the company exceed 20%, the CEO, the Deputy to the CEO, members of the board of Management and members of the Board of Directors, the spouses and minor children of the persons and corporations controlled by them. MuniFin's operations are restricted by the Act on the Municipal Guarantee Board and the framework agreement concluded between the company and the Municipal Guarantee Board, pursuant to which the company may only grant loans to parties stipulated by law (municipalities, municipal federations, corporations that are wholly owned by municipalities or under their control and corporations designated by government authorities and engaged in the renting or production and maintenance of housing on social grounds). MuniFin has not carried out any business transactions with related parties with the exception of employment-based remuneration. MuniFin does not have loan or financial receivables from related parties.

MuniFin's related parties also include its subsidiary Inspira. Transactions with Inspira comprise of fees related to administrative services.

TRANSACTIONS WITH THE SUBSIDIARY (EUR 1,000)	2017	2016
Sales	62	46
Purchases	239	96

INTERCOMPANY RECEIVABLES AND LIABILITIES (EUR 1,000)	31 DEC 2017	31 DEC 2016
Receivables	-	-
Liabilities	15	7

NOTE 29. SALARIES AND REMUNERATION

Employee benefits for management
Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Board of Management subject to withholding tax:

SALARIES AND REMUNERATION (EUR 1,000)	2017	2016
President and CEO	426	489
Deputy to the CEO	360	388
Other members of the Board of Management in total	936	1,043
Total	**1,722**	**1,920**

The salaries and remuneration shown in the table include both the fixed remuneration and paid variable remuneration. According to regulation on credit institutions, the payment of variable remuneration earned each year is delayed and paid over the following years if a person's remuneration exceeds EUR 50,000. More information on the salary and remuneration principles is available on the company's website and in the Remuneration Report for 2017 which is not a part of the financial statements.

The company has provided Board of Management members with a contribution-based group pension insurance. Board of Management members are entitled to pension from the insurance after they have turned 63 years.

In the event of termination of employment on the company's initiative, the CEO and Deputy to the CEO are entitled to a severance payment of six times the total monthly salary. The period of notice for termination of employment is six months for the CEO and the Deputy to the CEO. Employee benefits for the CEO and the Deputy to the CEO are terminated at the end of the period of notice.

Pekka Averio was the CEO of MuniFin until 22 August 2017. The Board of MuniFin and Pekka Averio agreed on the 22 August 2017 that Averio leaves his duties as the CEO of the company. On the same day Esa Kallio was appointed to take over the CEO's responsibilities. Figures reported in the note Salaries and remuneration for year 2017 include salaries and remuneration paid to Pekka Averio under President and CEO and respectively salaries and remuneration paid to Esa Kallio under Deputy to the CEO.

The retirement age for the CEO and the Deputy to the CEO is stipulated by the Employees Pensions Act.

The company has paid the following statutory pension contributions related to the CEO, the Deputy to the CEO and other Board of Management members:

STATUTORY PENSION CONTRIBUTIONS (EUR 1,000)	2017	2016
President and CEO	76	82
Deputy to the CEO	65	70
Other members of the Board of Management in total	168	187
Total	**309**	**339**

Remuneration of the Board of Directors

The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General Meeting. The annual remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members. In addition, meeting remuneration is paid for the meetings required by the supervisory authorities.

SALARIES AND REMUNERATION (EUR 1,000) MEMBERS OF THE BOARD OF DIRECTORS	2017	2016
Helena Walldén, Chairman 22 March 2016 onwards	65	22
Eva Liljeblom, Chairman until 22 March 2016	-	24
Tapani Hellstén, Vice Chairman	37	23
Fredrik Forssell	36	27
Minna Helppi, member 23 March 2017 onwards	21	-
Teppo Koivisto	38	26
Jari Koskinen, member 23 March 2017 onwards	20	-
Sirpa Louhevirta, member until 23 March 2017	13	25
Vivi Marttila, member 22 March 2016 onwards	32	13
Tuula Saxholm	35	26
Asta Tolonen, member until 22 March 2016	-	12
Juha Yli-Rajala, member until 23 March 2017	13	26
Total	**310**	**221**

During the year 2017, the payment schedule for the Board of Directors' remuneration has been revised. In addition the Board of Directors has had more meetings in 2017 and these together show an increase in remuneration.

Salaries and remuneration

The remuneration paid to the management and employees of MuniFin consists of a fixed remuneration (base salary and fringe benefits) and a variable remuneration based on the conditions of the remuneration system. Principles of remuneration system are confirmed by the Board of Directors on annual basis. The Remuneration Committee of the Board of Directors is responsible for preparatory work concerning the matters of remuneration system. More information about salaries and remuneration is available on the company's website www.munifin.fi.

Notes to the income statement

NOTE 30. INTEREST INCOME AND EXPENSE

2017 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	352	-12,476	-12,124
Loans and advances to the public and public sector entities	204,035	-	204,035
Debt securities	26,556	-1,996	24,561
Derivatives in hedge accounting	-118,942	-	-118,942
Derivatives held-for-trading	70,761	-30,494	40,268
Other interest income	2,190	-	2,190
Interest on assets	**184,953**	**-44,965**	**139,988**
Liabilities			
Liabilities to credit institutions	6,407	-75,583	-69,176
Liabilities to the public and public sector entities	-	-21,574	-21,574
Debt securities issued	0	-345,955	-345,954
Derivatives in hedge accounting	-	525,996	525,996
Other interest expense	-	-733	-733
Interest on liabilities	**6,407**	**82,151**	**88,559**
Total	**191,360**	**37,186**	**228,546**

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

2016 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	40	-9,838	-9,798
Loans and advances to the public and public sector entities	213,034	-	213,034
Debt securities	9,586	-1,092	8,494
Derivatives in hedge accounting	-99,302	-	-99,302
Derivatives held-for-trading	50,131	-28,411	21,719
Other interest income	1,046	-	1,046
Interest on assets	**174,535**	**-39,341**	**135,194**
Liabilities			
Liabilities to credit institutions	5,935	-56,572	-50,636
Liabilities to the public and public sector entities	-	-18,185	-18,185
Debt securities issued	33	-442,773	-442,739
Derivatives in hedge accounting	-	583,243	583,243
Subordinated liabilities	-	-559	-559
Other interest expense	-	-188	-188
Interest on liabilities	**5,968**	**64,966**	**70,934**
Total	**180,503**	**25,625**	**206,128**

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities.

Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

NOTE 31. COMMISSION INCOME

(EUR 1,000)	2017	2016
Financial advisory services	2,487	2,138
Other operations	757	600
Total	**3,245**	**2,738**

NOTE 32. COMMISSION EXPENSES

(EUR 1,000)	2017	2016
Commission fees paid	210	205
Other	3,861	3,822
Total	**4,071**	**4,026**

“Other” includes paid guarantee fees, custody fees and funding programme update costs.

NOTE 33. NET INCOME FROM SECURITIES AND FOREIGN EXCHANGE TRANSACTIONS

2017 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	-247	-247
Debt securities	-	-	-560	-560
ECPs	-	-	14	14
Issued ECPs	-	-	963	963
Total items valued with the fair value option	**-**	**-**	**170**	**170**
Derivative contracts held-for-trading	395	-278	8,145	8,261
Total net income from securities transactions	**395**	**-278**	**8,315**	**8,432**
Net income from foreign exchange transactions	**175**	**-2,385**	**-26**	**-2,236**
Total	**570**	**-2,663**	**8,289**	**6,196**

2016 (EUR 1,000)	Capital gains	Capital losses	Change in fair value	Total
Items valued with the fair value option				
Loans	-	-	644	644
Debt securities	-	-2,293	-1,071	-3,363
ECPs	-	0	-45	-45
Issued ECPs	-	-	-239	-239
Total items valued with the fair value option	**-**	**-2,293**	**-711**	**-3,004**
Derivative contracts held-for-trading	-	-13	858	845
Total net income from securities transactions	**-**	**-2,306**	**147**	**-2,159**
Net income from foreign exchange transactions	**434**	**-450**	**415**	**400**
Total	**434**	**-2,756**	**562**	**-1,759**

NOTE 34. FINANCIAL ASSETS DESIGNATED USING FAIR VALUE OPTION

2017 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	153,642	-247	0	-247
Debt securities	42,750	-560	-119	-442
ECPs	69,035	14	0	14
Total financial assets	**265,427**	**-793**	**-119**	**-674**

2017 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	3,833,346	963	0	963
Total financial liabilities	**3,833,346**	**963**	**0**	**963**

2016 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial assets				
Loans	185,765	644	0	644
Debt securities	15,573	-1,071	-159	-912
ECPs	433,872	-45	0	-45
Total financial assets	**635,209**	**-472**	**-159**	**-313**

2016 (EUR 1,000)	Carrying amount	Change in fair value	Due to credit risk	Due to market risk
Financial liabilities				
Issued ECPs	1,139,348	-239	0	-239
Total financial liabilities	**1,139,348**	**-239**	**0**	**-239**

Debt securities and ECPs valued with the fair value option are exposed to credit risk up to the carrying amounts of those securities in 2017 and 2016. Loans to corporates and non-profit organisations designated using the fair value option all have an absolute guarantee or deficiency guarantee issued by a municipality or municipal federation, or a state deficiency guarantee.

NOTE 35. NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR 1,000)	2017	2016
Income from shares in investment funds	62	94
Capital gains from financial assets	579	338
Capital losses from financial assets	-10	-999
Unrealised gains transferred from the fair value reserve	183	685
Unrealised losses transferred from the fair value reserve	-320	-586
Total	**494**	**-468**

NOTE 36. NET INCOME FROM HEDGE ACCOUNTING

(EUR 1,000)	2017	2016
Unrealised gains from hedging instruments	129,576	262,336
Unrealised losses from hedging instruments	-317,079	-14,748
Net income from hedging instruments	**-187,503**	**247,588**
Unrealised gains from hedged items	318,591	16,577
Unrealised losses from hedged items	-128,433	-261,579
Net income from hedged items	**190,158**	**-245,001**
Net income from hedge accounting	**2,655**	**2,587**

Unrealised gains and losses include risks to which fair value hedge accounting is applied, with the exception of the foreign exchange difference of hedging instruments and hedged items. The foreign exchange difference of both items is shown on line item Net income from foreign exchange transactions in Note 33.

NOTE 37. OTHER OPERATING INCOME

(EUR 1,000)	2017	2016
Other income from credit institution operations	134	139
Total	**134**	**139**

NOTE 38. ADMINISTRATIVE EXPENSES

(EUR 1,000)	2017	2016
Personnel expenses		
Wages and salaries	11,012	9,483
Pension costs	2,196	1,905
Other personnel-related costs	377	516
Total	**13,584**	**11,904**
Other administrative expenses	8,759	6,917
Total	**22,343**	**18,820**

	2017		2016	
PERSONNEL	**Average**	**End of year**	**Average**	**End of year**
Permanent full-time	111	122	97	99
Permanent part-time	3	5	2	3
Fixed term	9	7	5	4
Total	**122**	**134**	**104**	**106**

NOTE 39. OTHER OPERATING EXPENSES

(EUR 1,000)	2017	2016
Expenses to authorities		
Contributions to the resolution fund	3,756	2,613
Other administrative and supervisory fees	1,844	1,212
Rental expenses	2,065	2,038
Other expenses from credit institution operations	6,830	4,587
Total	**14,495**	**10,451**

NOTE 40. IMPAIRMENT ON LOANS AND OTHER COMMITMENTS

In 2017 MuniFin booked an impairment loss totalling EUR 1,366 thousand on Loans and advances to the public and public sector entities. The company has a receivable of the equivalent amount from the guarantor of the loan. The receivable is shown in the statement of financial position on line Other assets and shown as a decrease of the impairment loss in the income statement. The impairment loss and the equivalent receivable are shown in the income statement on row Impairments on loans and other receivables.

No impairment losses were booked on loans and other receivables during 2016.

2017 (EUR 1,000)	Individual impairment losses, gross	Adjustments	Profit and Loss
Loans and advances to the public and public sector entities	1,366	-1,366	0
Total impairment losses on loans and other commitments	**1,366**	**-1,366**	**0**

2016 (EUR 1,000)	Individual impairment losses, gross	Adjustments	Profit and Loss
Loans and advances to the public and public sector entities	-	-	-
Total impairment losses on loans and other commitments	**-**	**-**	**-**

NOTE 41. IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

MuniFin has not made any impairment losses or their reversals in 2017 or 2016.

NOTE 42. INCOME TAX EXPENSE

(EUR 1,000)	2017	2016
Tax based on the profit for the financial year	8,590	1,740
Tax based on the profit for previous financial years	-	-
Deferred tax	31,131	33,142
Total	**39,721**	**34,882**
Profit before tax	198,386	174,250
Taxes at domestic tax rate	39,677	34,850
Non-taxable income	-1	-3
Other deductibles	-5	-5
Non-deductible expenses	49	40
Change in corporate tax rate	-	-
Total	**39,721**	**34,882**

NOTE 43. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period that would have a material impact on the information presented in the financial statements.

Capital adequacy

NOTE 44. MINIMUM OWN FUNDS REQUIREMENTS AND CAPITAL BUFFERS

(%) 31 DEC 2017	Capital require-ment	Capital conservation buffer 1)	Countercyclical capital buffer 2)	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	4.5%	2.5%	0.3%	0.5%	3.3%	7.8%
Tier 1 Capital (T1)	6.0%	2.5%	0.3%	0.5%	3.3%	9.3%
Total own funds	8.0%	2.5%	0.3%	0.5%	3.3%	11.3%

(EUR 1,000) 31 DEC 2017	Capital require-ment	Capital conservation buffer 1)	Countercyclical capital buffer 2	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	77,051	42,806	5,777	8,561	57,145	134,196
Tier 1 Capital (T1)	102,735	42,806	5,777	8,561	57,145	159,880
Total own funds	136,980	42,806	5,777	8,561	57,145	194,125

(%) 31 DEC 2016	Capital require-ment	Capital conservation buffer 1)	Countercyclical capital buffer 2	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	4.5%	2.5%	0.3%	0.5%	3.3%	7.8%
Tier 1 Capital (T1)	6.0%	2.5%	0.3%	0.5%	3.3%	9.3%
Total own funds	8.0%	2.5%	0.3%	0.5%	3.3%	11.3%

(EUR 1,000) 31 DEC 2016	Capital require-ment	Capital conservation buffer 1)	Countercyclical capital buffer 2	O-SII 3)	Total capital buffers	Total
Common Equity Tier 1 (CET1)	75,625	42,014	4,366	8,403	54,783	130,408
Tier 1 Capital (T1)	100,833	42,014	4,366	8,403	54,783	155,616
Total own funds	134,444	42,014	4,366	8,403	54,783	189,227

1) Act on Credit Institutions (610/2014), Chapter 10, Section 3, and the EU Capital Requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). Valid from 1 January 2015.

2) Act on Credit Institutions (610/2014) Sect 10:4-5 §, and the EU Capital Requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). On 21th December 2017, the Board of Financial Supervisory Authority (FIN-FSA) decided not to set countercyclical capital buffer requirement for credit exposures allocated to Finland. The institution-specific countercyclical capital buffer requirement is determined on the basis of the geographical distribution of the exposures. For MuniFin it is 0.3%.

3) The additional capital requirement for other systemically important institutions: Act on Credit Institutions (610/2014), Chapter 10, Section 8, and the EU capital requirements Regulation (575/2013; CRR) and Directive (2013/36/EU; CRD IV). The additional capital requirement (O-SII) imposed on MuniFin is 0.5% as per the decision of the Financial Supervisory Authority (FIN-FSA) made on 6 July 2015, valid from 7 January 2016.

As part of the yearly SREP (Supervisory Review and Evaluation Process) decision on MuniFin, the European Central Bank (ECB) imposed an additional 1.5% CET1 capital buffer requirement (P2R) valid from 1 January 2017. ECB evaluates the additional capital buffer requirement at least annually. The minimum levels of capital buffer for CET1 capital and total own funds which also take into account the P2R additional capital requirement are 9.3% and 12.8%, respectively. ECB also issued a 4.2% capital adequacy guidance (P2G) which however, if not met, does not prevent for example the company from distributing dividends. The inclusion of the capital adequacy guidance (P2G) increases the minimum level of CET1 capital buffer to 13.5% at the end of 2017.

Financial Supervisory Authority (FIN-FSA) decided in December 2017 to raise the additional capital requirement (O-SII) imposed on MuniFin from 0.5% to 1%. The new requirement will be effective on 1 July 2018.

ECB updated the additional capital requirements to 1.75% (P2R) and 4.0% (P2G), effective on 1 January 2018. Considering both the additional capital requirement and the capital adequacy guidance, the new minimum level for CET1 capital is 13.55%, effective on 1 January 2018.

NOTE 45. OWN FUNDS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Share capital	42,583	42,583
Reserve for invested non-restricted equity	40,366	40,366
Retained earnings	879,799	734,107
Fair value reserve, transitional provision	28,944	19,519
Other reserves	277	277
Foreseeable dividend	-6,250	-
Accrued interest net of deferred taxes of AT1 capital loan treated as equity	-9,459	-9,459
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**976,260**	**827,393**
Intangible assets	-10,196	-6,776
Deductions due to prudential filters on Common Equity Tier 1	-20,544	-43,985
Common Equity Tier 1 (CET1) capital	**945,519**	**776,633**
Instruments included in Additional Tier 1 capital	347,454	347,454
Additional Tier 1 (AT1) capital	**347,454**	**347,454**
Tier 1 (T1) capital	**1,292,973**	**1,124,086**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,292,973**	**1,124,086**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (during 1 January 2015 - 31 December 2017). Common Equity Tier 1 capital includes the profit for the period, which has been subject to a review by the auditors, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on Common Equity Tier 1 are made up of MuniFin's debt value adjustment (DVA) and other value adjustments (PVA, AVA) and the anticipated distribution of earnings.

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1st 2015. A detailed description of the instruments included in the Additional Tier 1 capital is included in the Pillar III report that is available in English on the company's website. Pillar III report is a separate report from this financial statements.

The own funds of the subsidiary Financial Advisory Services Inspira Ltd were not taken into account in the Group's own funds because, according to the interpretation of the Finnish Financial Supervisory Authority (27 January 2016), shares which a company, according to its Articles of Association, has the right to redeem as stipulated in Chapter 3, Section 7 of the Limited Liability Companies Act (624/2006), cannot be classified as CET1 instruments.

NOTE 46. CONSOLIDATED KEY FIGURES FOR CAPITAL ADEQUACY

CONSOLIDATED KEY FIGURES FOR CAPITAL ADEQUACY	31 DEC 2017	31 DEC 2016
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	55.22	46.21
Ratio of Tier 1 (T1) capital to risk-weighted assets, %	75.51	66.89
Ratio of total own funds to risk-weighted assets, %	75.51	66.89

NOTE 46. CONSOLIDATED MINIMUM REQUIREMENT FOR OWN FUNDS

The capital requirement for credit risk is calculated using the standardised approach. In calculating the capital requirements for market risk, only foreign exchange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. The capital requirement for operative risks is calculated using the basic indicator approach.

	31 DEC 2017		31 DEC 2016	
(EUR 1,000)	**Capital requirement**	**Risk-weighted assets**	**Capital requirement**	**Risk-weighted assets**
Credit and counterparty credit risk, standardised approach	**108,144**	**1,351,799**	**107,756**	**1,346,956**
Exposures to central governments or central banks	302	3,780	778	9,725
Exposures to regional governments or local authorities	332	4,153	379	4,735
Exposures to public sector entities	4,742	59,271	4,275	53,435
Exposures to multilateral development banks	953	11,914	965	12,068
Exposures to institutions	81,835	1,022,934	79,937	999,213
Exposures in the form of covered bonds	19,063	238,284	20,303	253,793
Items representing securitisation positions	104	1,296	423	5,284
Exposures in the form of shares in CIUs	103	1,286	107	1,331
Other items	710	8,881	590	7,372
Market risk	**1,075**	**13,436**	**794**	**9,930**
Credit valuation adjustment risk (CVA VaR), standardised method	**979**	**12,233**	**1,304**	**16,299**
Operational risk, basic indicator approach	**26,783**	**334,786**	**24,589**	**307,364**
Total	**136,980**	**1,712,254**	**134,444**	**1,680,550**

The capital requirement for counterparty credit risk is EUR 2,995 thousand (2016: EUR 4,826 thousand).

NOTE 48. CONSOLIDATED EXPOSURE BY CLASS

31 DEC 2017 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk-weighted assets
Exposures to central governments or central banks	4,004,347	-	-	4,004,347	3,307,052	3,780
Exposures to regional governments or local authorities	9,578,898	873,521	160,014	10,612,433	10,890,553	4,153
Exposures to public sector entities	281,233	-	-	281,233	278,233	59,271
Exposures to multilateral development banks	232,631	-	-	232,631	208,994	11,914
Exposures to international organisations	73,917	-	-	73,917	95,083	0
Exposures to institutions	4,161,532	-	590,101	4,751,633	4,648,384	1,022,934
Exposures to corporates	5,086,565	274,461	-	5,361,025	5,459,483	0
Exposures secured by mortgages on immovable property	7,733,992	1,122,364	-	8,856,287	8,564,360	0
Exposures in default	450	-	-	450	113	0
Exposures in the form of covered bonds	1,938,881	-	-	1,938,881	1,961,964	238,284
Items representing securitisation positions	6,478	-	-	6,478	18,128	1,296
Exposures in the form of shares in CIUs	9,635	-	-	9,635	9,663	1,286
Other items	79,780	-	-	79,780	88,119	8,881
Total	**33,188,269**	**2,270,346**	**750,115**	**36,208,730**	**35,530,130**	**1,351,799**

31 DEC 2016 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Average exposure amount over the period	Risk-weighted assets
Exposures to central governments or central banks	1,564,884	-	-	1,564,884	2,381,066	9,725
Exposures to regional governments or local authorities	10,126,880	716,850	223,150	11,066,880	10,945,192	4,735
Exposures to public sector entities	267,177	-	-	267,177	263,780	53,435
Exposures to multilateral development banks	256,452	-	-	256,452	270,561	12,068
Exposures to international organisations	133,691	-	-	133,691	149,090	0
Exposures to institutions	3,670,578	-	741,487	4,412,065	4,588,931	999,213
Exposures to corporates	4,832,744	337,577	-	5,170,321	5,126,996	0
Exposures secured by mortgages on immovable property	7,208,747	828,892	-	8,037,639	7,863,384	0
Exposures in the form of covered bonds	2,055,196	-	-	2,055,196	1,987,623	253,793
Items representing securitisation positions	26,419	-	-	26,419	35,593	5,284
Exposures in the form of shares in CIUs	9,668	-	-	9,668	9,820	1,331
Other items	92,442	-	-	92,442	95,673	7,372
Total	**30,244,877**	**1,883,319**	**964,637**	**33,092,833**	**33,717,708**	**1,346,956**

PARENT COMPANY FINANCIAL STATEMENTS
2017

Balance Sheet

(EUR 1,000)	Note	31 DEC 2017	31 DEC 2016
ASSETS			
Cash and balances with central banks		3,554,182	988,949
Cash		5	7
Central bank receivables payable on demand		3,554,177	988,943
Debt securities eligible for central bank refinancing	(4)	5,008,344	5,466,022
Other		5,008,344	5,466,022
Loans and advances to credit institutions	(2, 20)	1,250,746	438,533
Payable on demand		7,906	7,252
Other		1,242,840	431,281
Loans and advances to the public and public sector entities	(3)	21,219,114	20,909,752
Leasing assets	(5)	431,732	285,987
Debt securities	(4)	1,485,890	2,003,415
From public sector entities		720,889	944,043
From others		765,002	1,059,372
Shares and participations	(6)	9,662	9,695
Shares and participations in Group companies	(6)	612	112
Derivative contracts	(7)	1,433,318	3,634,302
Intangible assets	(8, 10)	10,330	6,881
Tangible assets	(9, 10)	2,447	2,349
Other tangible assets		2,447	2,349
Other assets	(11)	157,469	62,615
Accrued income and prepayments	(12)	173,838	243,005
TOTAL ASSETS	(18, 19, 21)	**34,737,685**	**34,051,617**

(EUR 1,000)	**Note**	**31 DEC 2017**	**31 DEC 2016**
LIABILITIES AND EQUITY			
LIABILITIES			
Liabilities to credit institutions and central banks	(21)	3,902,480	5,362,317
To credit institutions		3,902,480	5,362,317
Other		3,902,480	5,362,317
Liabilities to the public and public sector entities		646,558	872,919
Other liabilities		646,558	872,919
Debt securities issued	(14)	26,303,961	24,584,169
Bonds		22,470,615	23,444,821
Other		3,833,346	1,139,348
Derivative contracts	(7)	2,216,034	1,676,859
Other liabilities	(15)	2,421	4,264
Accrued expenses and deferred income	(16)	135,958	206,463
Subordinated liabilities	(17)	347,916	347,426
Deferred tax liabilities	(13)	7,236	4,880
TOTAL LIABILITIES	(18, 19, 21)	**33,562,564**	**33,059,297**
APPROPRIATIONS			
Depreciation difference		6,163	2,298
Voluntary provisions		960,530	824,980
TOTAL APPROPRIATIONS		**966,693**	**827,278**
EQUITY	(23, 24, 25)		
Share capital		43,008	43,008
Other restricted reserves		29,221	19,796
Reserve fund		277	277
Fair value reserve		28,944	19,519
Change in fair value		28,944	19,519
Non-restricted reserves		40,743	40,743
Reserve for invested non-restricted equity		40,743	40,743
Retained earnings		61,496	54,688
Profit for the financial period		33,960	6,808
TOTAL EQUITY		**208,428**	**165,043**
TOTAL LIABILITIES AND EQUITY	(18, 19, 21)	**34,737,685**	**34,051,617**
OFF-BALANCE SHEET COMMITMENTS			
Irrevocable commitments given in favour of customer		2,120,206	1,883,319

Income Statement

(EUR 1,000)	Note	1 JAN - 31 DEC 2017	1 JAN - 31 DEC 2016
Interest income	(26)	188,256	178,206
Net income from leasing operations	(27)	3,104	2,297
Interest expense	(26)	20,948	9,352
NET INTEREST INCOME		**212,308**	**189,855**
Income from equity investments		-	63
In Group companies	(28)	-	63
Commission income	(29)	758	601
Commission expense	(29)	-4,067	-4,023
Net income from securities and foreign exchange transactions	(30)	6,196	-1,759
Net income from securities		8,432	-2,159
Net income from foreign exchange transactions		-2,236	400
Net income from available-for-sale financial assets	(31)	494	-468
Net income from hedge accounting	(32)	2,655	2,587
Other operating income	(33)	196	185
Administrative expenses		-20,306	-17,134
Personnel expenses		-11,812	-10,481
Salaries and fees	(43)	-9,545	-8,319
Personnel-related costs		-2,267	-2,162
Pension costs		-1,926	-1,669
Other personnel-related costs		-341	-493
Other administrative expenses		-8,494	-6,653
Depreciation and impairment on tangible and intangible assets	(35)	-1,970	-1,815
Other operating expenses	(34)	-14,344	-10,122
Impairments on loans and other receivables	(36)	0	-
OPERATING PROFIT		**181,919**	**157,971**
Appropriations		-139,415	-149,438
Income taxes		-8,544	-1,725
PROFIT FOR THE PERIOD		**33,960**	**6,808**

Statement of cash flows

(EUR 1,000)	1 JAN - 31 DEC 2017	1 JAN - 31 DEC 2016
CASH FLOW FROM OPERATING ACTIVITIES	**2,571,319**	**-911,177**
Net change in long-term funding	1,598,929	471,015
Net change in short-term funding	2,776,446	-101,832
Net change in long-term loans	-566,163	-915,040
Net change in short-term loans	223,584	142,736
Net change in investments	678,585	-576,223
Net change in collaterals	-2,361,837	-84,168
Interest on assets	98,339	130,575
Interest on liabilities	144,783	43,354
Other income	36,560	30,114
Payments of operating expenses	-57,202	-54,087
Taxes paid	-705	2,378
CASH FLOW FROM INVESTING ACTIVITIES	**-5,433**	**-2,834**
Acquisition of tangible assets	-642	-669
Acquisition of intangible assets	-4,791	-2,165
CASH FLOW FROM FINANCING ACTIVITIES	**-**	**-35,000**
Change in subordinated liabilities	-	-35,000
CHANGE IN CASH AND CASH EQUIVALENTS	**2,565,886**	**-949,012**
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**996,202**	**1,945,214**
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**3,562,088**	**996,202**

Cash and cash equivalents include the following balance sheet items:
Cash and balances with central banks and loans and advances to credit institutions payable on demand.

EUR 1,000	31 DEC 2017	31 DEC 2016
Cash and balances with central banks	3,554,182	988,949
Loans and advances to credit institutions	7,906	7,252
TOTAL CASH AND CASH EQUIVALENTS	**3,562,088**	**996,202**

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS, FAS

NOTES TO THE BALANCE SHEET

NOTES TO THE INCOME STATEMENT

NOTES ON COLLATERAL AND CONTINGENT LIABILITIES

NOTES ON PERSONNEL AND MANAGEMENT

RELATED PARTY TRANSACTIONS

HOLDINGS IN OTHER COMPANIES

OTHER NOTES

CAPITAL ADEQUACY

Notes to the parent company financial statements, FAS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES OF THE PARENT COMPANY FINANCIAL STATEMENTS

Municipality Finance Plc, the parent company of the Municipality Finance Group, prepares its financial statements in accordance with the Act on Credit Institutions, the Ministry of Finance Decree on Credit Institutions and the Financial Supervisory Authority Regulations and Guidelines 2/2016. The company reports regularly on its operations to the European Central Bank, the Finnish Financial Supervisory Authority, the Bank of Finland, the Municipal Guarantee Board and Statistics Finland.

The parent company's credit loss provisions are made in accordance with tax law.

Other valuation and amortisation principles are described in the notes to the consolidated financial statements.

Notes to the balance sheet

The company has not combined any items on the balance sheet under Chapter 2, Section 14(4), of the Ministry of Finance Decree.

NOTE 2. LOANS AND ADVANCES TO CREDIT INSTITUTIONS

31 DEC 2017 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	60,575	7,605	52,970
Foreign credit institutions	1,190,171	301	1,189,870
Total	**1,250,746**	**7,906**	**1,242,840**

31 DEC 2016 (EUR 1,000)	Total	Payable on demand	Other than payable on demand
Domestic credit institutions	124,953	6,172	118,781
Foreign credit institutions	313,580	1,080	312,500
Total	**438,533**	**7,252**	**431,281**

NOTE 3. LOANS AND ADVANCES TO THE PUBLIC AND PUBLIC SECTOR ENTITIES

(EUR 1,000)	**31 DEC 2017**	**31 DEC 2016**
Enterprises and housing corporations	11,590,300	11,051,611
Public sector entities	9,249,234	9,493,314
Non-profit organisations	379,581	364,827
Total	**21,219,114**	**20,909,752**

IMPAIRMENT LOSSES ON LOANS AND ADVANCES TO THE PUBLIC AND PUBLIC SECTOR ENTITIES 2017 (EUR 1,000)	**Non-profit organisations**
Impairment losses 1 Jan 2017	-
Impairment losses on individual loans during the financial year	-1,366
Receivables from the loan guarantor during the financial year	1,366
Reversals of impairment losses during the financial year	-
Impairment losses 31 Dec 2017	**0**

Loans and advances to the public and public sector entities did not include any impairment losses during 2016.

At the end of 2017 loans and advances to the public and public sector entities included EUR 50,949 thousand of forborne loans (2016: EUR 6,790 thousand).

NOTE 4. DEBT SECURITIES

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 DEC 2017 (EUR 1,000)	**Publicly quoted**	**Other**	**Total**
Held-to-maturity	**-**	**661,318**	**661,318**
Municipal commercial papers	-	661,318	661,318
Available-for-sale	**1,845,609**	**-**	**1,845,609**
Government bonds	450,170	-	450,170
Bonds issued by other public sector entities	1,395,439	-	1,395,439
Fair value option	**-**	**-**	**-**
Government treasury bills	-	-	-
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	-	-
Total	**1,845,609**	**661,318**	**2,506,927**
Eligible for central bank refinancing	1,583,001	-	1,583,001

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**92,541**	**92,541**
Bank bonds	-	-	-
Commercial papers	-	87,670	87,670
Other debt securities	-	4,871	4,871
Available-for-sale	**3,781,374**	**1,607**	**3,782,981**
Bank bonds	3,781,374	-	3,781,374
Other debt securities	-	1,607	1,607
Fair value option	**42,750**	**69,035**	**111,785**
Bank commercial papers	-	69,035	69,035
Bank bonds	42,750	-	42,750
Total	**3,824,124**	**163,182**	**3,987,307**
Eligible for central bank refinancing	3,385,314	40,028	3,425,343

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities total	**5,669,734**	**824,500**	**6,494,234**

At year end 2017 debt securities do not contain any securities given as collateral for reverse repo agreements.

RECLASSIFICATION (EUR 1,000)	Transfer date	Fair value of investments at transfer date
Transferred from available-for-sale to held-to-maturity investments	1 Jan 2008	171,935
Transferred from available-for-sale to held-to-maturity investments	1 Jul 2008	34,967
	Total	**206,902**

Without this reclassification, changes in fair value of investments would have had an impact of EUR 139 thousand on the fair value reserve in 2017. The remainder of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve by the end of year 2016.

Without this reclassification, changes in fair value of investments would have had an impact of EUR 4,194 thousand on the fair value reserve in 2016. In 2016 EUR 24 thousand of the valuation difference resulting from the transfer of debt securities to held-to-maturity investments was released from the fair value reserve.

DEBT SECURITIES ISSUED BY PUBLIC SECTOR ENTITIES 31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**881,620**	**881,620**
Municipal commercial papers	-	881,620	881,620
Available-for-sale	**2,010,365**	**-**	**2,010,365**
Government bonds	527,317	-	527,317
Bonds issued by other public sector entities	1,483,048	-	1,483,048
Fair value option	**-**	**68,652**	**68,652**
Government treasury bills	-	48,625	48,625
Bonds issued by other public sector entities	-	-	-
Commercial paper issued by other public sector entities	-	20,028	20,028
Total	**2,010,365**	**950,273**	**2,960,638**
Eligible for central bank refinancing	1,839,015	20,028	1,859,042

DEBT SECURITIES ISSUED BY OTHER THAN PUBLIC SECTOR ENTITIES 31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total
Held-to-maturity	**-**	**114,238**	**114,238**
Bank bonds	-	-	-
Commercial papers	-	91,012	91,012
Other debt securities	-	23,226	23,226
Available-for-sale	**4,010,577**	**3,193**	**4,013,769**
Bank bonds	4,010,577	-	4,010,577
Other debt securities	-	3,193	3,193
Fair value option	**15,573**	**365,219**	**380,792**
Bank commercial papers	-	365,219	365,219
Bank bonds	15,573	-	15,573
Total	**4,026,149**	**482,650**	**4,508,799**
Eligible for central bank refinancing	3,516,932	90,048	3,606,980

31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total
Debt securities total	**6,036,514**	**1,432,923**	**7,469,437**

NOTE 5. ASSETS LEASED UNDER FINANCIAL LEASING

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Prepayments	149,653	102,870
Machinery and equipment	151,514	137,859
Fixed assets and buildings	129,278	43,342
Other assets	1,288	1,916
Total	**431,732**	**285,987**

NOTE 6. SHARES AND PARTICIPATIONS

31 DEC 2017 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,635	27	9,662	-
Shares and participations in Group companies	-	612	612	-
Total	**9,635**	**639**	**10,274**	**-**
of which at acquisition cost	-	639	639	-

31 DEC 2016 (EUR 1,000)	Publicly quoted	Other	Total	In credit institutions
Shares and participations				
Available-for-sale	9,668	27	9,695	-
Shares and participations in Group companies	-	112	112	-
Total	**9,668**	**139**	**9,807**	**-**
of which at acquisition cost	-	139	139	-

NOTE 7. DERIVATIVE CONTRACTS

31 DEC 2017 (EUR 1,000)	Nominal value of underlying instrument				Fair value	
	Remaining maturity					
	Less than 1 year	1 – 5 years	Over 5 years	Total	Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,454,724	16,163,172	10,432,188	31,050,085	531,951	-369,866
Cleared by the central counterparty	-	3,597,917	1,758,500	5,356,417	19,821	-40,314
Currency derivatives						
Cross currency interest rate swaps	5,287,321	10,681,946	1,665,703	17,634,970	694,979	-1,587,860
Total	**9,742,045**	**26,845,118**	**12,097,891**	**48,685,054**	**1,226,930**	**-1,957,725**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	577,565	3,220,905	2,640,360	6,438,830	144,237	-138,367
Cleared by the central counterparty	54,400	2,554,967	2,275,464	4,884,831	25,037	-56,989
Interest rate options	-	162,175	-	162,175	628	-628
Currency derivatives						
Cross currency interest rate swaps	27,737	5,289	-	33,026	186	-146
Forward exchange contracts	3,846,382	-	-	3,846,382	5,127	-62,956
Equity derivatives	1,438,846	766,070	-	2,204,916	56,078	-56,078
Other derivatives	-	20,000	-	20,000	133	-133
Total	**5,890,530**	**4,174,438**	**2,640,360**	**12,705,329**	**206,388**	**-258,308**
Grand total	**15,632,576**	**31,019,557**	**14,738,251**	**61,390,383**	**1,433,318**	**-2,216,034**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are hedging derivatives for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

31 DEC 2016 (EUR 1,000)	Nominal value of underlying instrument – Remaining maturity: Less than 1 year	1 – 5 years	Over 5 years	Total	Fair value: Positive	Negative
Contracts in hedge accounting						
Interest rate derivatives						
Interest rate swaps	4,388,063	14,736,546	12,677,923	31,802,532	650,615	-470,835
Cleared by the central counterparty*	10,000	2,337,940	144,100	2,492,040	11,776	-5,749
Interest rate options	6,006	-	-	6,006	0	0
Currency derivatives						
Cross currency interest rate swaps	4,654,761	11,890,445	2,260,639	18,805,844	2,590,972	-843,870
Total	**9,048,830**	**26,626,990**	**14,938,562**	**50,614,382**	**3,241,587**	**-1,314,705**
Contracts held-for-trading						
Interest rate derivatives						
Interest rate swaps	482,176	3,077,964	2,771,390	6,331,530	190,920	-193,443
Cleared by the central counterparty*	-	300,000	85,752	385,752	2,575	-172
Interest rate options	-	245	42,000	42,245	546	-550
Currency derivatives						
Cross currency interest rate swaps	-	9,708	-	9,708	841	-841
Forward exchange contracts	1,032,416	161,275	-	1,193,691	35,502	-2,412
Equity derivatives	571,265	2,659,624	-	3,230,889	158,284	-158,284
Other derivatives	-	55,500	-	55,500	6,622	-6,622
Total	**2,085,857**	**5,964,317**	**2,813,390**	**10,863,563**	**392,715**	**-362,153**
Grand total	**11,134,687**	**32,591,307**	**17,751,952**	**61,477,946**	**3,634,302**	**-1,676,859**

Contracts held-for-trading contains all derivatives of the company which are not included in hedge accounting, even if they are hedging derivatives for risk management purposes. The category contains derivatives used for hedging financial assets and liabilities which are measured using the fair value option, all derivatives with municipalities, all derivatives hedging derivatives with municipalities. In addition to these, the category contains derivatives used for hedging interest rate risk of the balance sheet, for which no hedged item has been specified, the derivatives which hedge embedded derivatives and the embedded derivatives which have been bifurcated from the financial liability.

* In May 2016 MuniFin commenced to clear OTC derivative contracts through central counterparty (EMIR regulation).

NOTE 8. INTANGIBLE ASSETS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
IT systems	10,196	6,776
Other intangible assets	134	105
Total	**10,330**	**6,881**

NOTE 9. TANGIBLE ASSETS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Real estate		
Buildings	279	319
Land	135	135
Real estate corporation shares	299	299
Other tangible assets	1,735	1,596
Total	**2,447**	**2,349**

NOTE 10. CHANGES IN INTANGIBLE AND TANGIBLE ASSETS DURING THE FINANCIAL YEAR

	Intangible assets	Tangible assets		
31 DEC 2017 (EUR 1,000)	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	13,990	1,207	3,633	4,840
+ Additions	4,791	-	829	829
– Disposals	-	-	-359	-359
Acquisition cost 31 Dec	18,781	1,207	4,103	5,310
Accumulated depreciation 1 Jan	7,109	454	2,037	2,491
– Accumulated depreciation on disposals	-	-	-258	-258
+ Depreciation for the financial year	1,341	40	589	629
Accumulated depreciation 31 Dec	8,451	494	2,369	2,862
Book value 31 Dec	**10,330**	**713**	**1,735**	**2,447**

	Intangible assets	Tangible assets		
31 DEC 2016 (EUR 1,000)	Total	Real estate	Other tangible assets	Total
Acquisition cost 1 Jan	11,824	1,207	3,173	4,379
+ Additions	2,166	-	970	970
– Disposals	-	-	-509	-509
Acquisition cost 31 Dec	13,990	1,207	3,634	4,840
Accumulated depreciation 1 Jan	5,859	413	1,821	2,234
– Accumulated depreciation on disposals	-	-	-308	-308
+ Depreciation for the financial year	1,250	40	524	564
Accumulated depreciation 31 Dec	7,109	453	2,038	2,491
Book value 31 Dec	**6,881**	**753**	**1,596**	**2,349**

NOTE 11. OTHER ASSETS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Leasing receivables	6,737	4,387
Given cash collateral to Central Counterparty Clearing House	148,205	49,838
Other	2,527	8,390
Total	**157,469**	**62,615**

NOTE 12. ACCRUED INCOME AND PREPAYMENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Interest	171,639	240,780
Other	2,200	2,224
Total	**173,838**	**243,005**

NOTE 13. DEFERRED TAX ASSETS AND LIABILITIES

DEFERRED TAX ASSETS (EUR 1,000)	31 DEC 2016	Recognised in the income statement	Recognised in equity	31 DEC 2017
On other temporary differences				
On fair value reserve	-	-	-	-
Total	**-**	**-**	**-**	**-**

DEFERRED TAX LIABILITIES (EUR 1,000)	31 DEC 2016	Recognised in the income statement	Recognised in equity	31 DEC 2017
On other temporary differences				
On fair value reserve	4,880	-	2,356	7,236
Total	**4,880**	**-**	**2,356**	**7,236**

Voluntary provisions and depreciation difference include EUR 193,339 thousand in non-recognised deferred tax liabilities.

DEFERRED TAX ASSETS (EUR 1,000)	31 DEC 2015	Recognised in the income statement	Recognised in equity	31 DEC 2016
On other temporary differences				
On fair value reserve	-	-	-	-
Total	**-**	**-**	**-**	**-**

DEFERRED TAX LIABILITIES (EUR 1,000)	31 DEC 2015	Recognised in the income statement	Recognised in equity	31 DEC 2016
On other temporary differences				
On fair value reserve	2,838	-	2,041	4,880
Total	**2,838**	**-**	**2,041**	**4,880**

Voluntary provisions and depreciation difference include EUR 165,456 thousand in non-recognised deferred tax liabilities.

NOTE 14. DEBT SECURITIES ISSUED

	31 DEC 2017		31 DEC 2016	
(EUR 1,000)	Book value	Nominal value	Book value	Nominal value
Bonds	22,470,615	23,239,066	23,444,821	25,456,304
Other	3,833,346	3,841,305	1,139,348	1,141,258
Total	**26,303,961**	**27,080,371**	**24,584,169**	**26,597,562**

All parent company funding is guaranteed by the Municipal Guarantee Board.

NOTE 15. OTHER LIABILITIES

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Other	2,421	4,264
Total	**2,421**	**4,264**

NOTE 16. ACCRUED EXPENSES AND DEFERRED INCOME

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Interest	117,999	197,342
Other	17,959	9,121
Total	**135,958**	**206,463**

NOTE 17. SUBORDINATED LIABILITIES

31 DEC 2017 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,916	Fixed	1st April 2022
Total		**350,000**	**347,916**		

31 DEC 2016 (EUR 1,000)	Currency	Nominal value	Book value	Interest rate	Earliest repayment
AT1 capital loan	EUR	350,000	347,426	Fixed	1st April 2022
Total		**350,000**	**347,426**		

LOAN TERMS AND CONDITIONS:

The loan is an unsecured debenture loan included under Additional Tier 1 capital, with special terms designed to fulfil the requirements set for so-called AT1 capital loans in the Capital Requirements Regulation (EU 575/2013). The loan does not have a maturity date. Interest on the loan may only be paid out of distributable funds in accordance with the terms set in the Capital Requirements Regulation, and the company will decide whether interest will be paid on the interest payment date. The cancellation of interest payments is final, and unpaid interest will not be added to the loan capital. The loan capital will be written off if the proportion of the company's Common Equity Tier 1 (CET1) capital to risk-weighted assets falls below 5.125%. The company may decide to re-book the loan capital partially or entirely if the Capital Requirements Regulation permits this based on an improvement in the company's finances. The company has the right but not the obligation to repay the loan on 1 April 2022 or, after that, annually on the interest payment date, as long as the buy-back is approved in advance by the regulatory authority. The regulatory authority may authorise the repayment of the loan also for particular reasons, for example if legislation or regulatory practice should change in such a way that the company loses the right to deduct the interest in full, or if the company should be forced to make the additional payments mentioned in the loan terms. The authorities may also permit repayment of the loan if the loan's official classification changes in such a way that the loan would be likely to be excluded from the company's own funds, or if it is reclassified as lower-value funds. The loan capital, interest payments and other repayments shall take lower priority than all other higher-level debts in case of the company's dissolution or bankruptcy. AT1 capital loan is recognised as equity in consolidated financial statements. In parent's company's financial statements AT1 capital loan is recognised in balance sheet item Subordinated liabilities.

NOTE 18. BREAKDOWN OF FINANCIAL ASSETS AND LIABILITIES BY MATURITY

31 DEC 2017 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	408,061	631,907	3,380,919	587,457	-	5,008,344
Loans and advances to credit institutions	1,235,076	-	-	-	15,670	1,250,746
Loans and advances to the public and public sector entities	312,024	1,214,653	6,743,859	3,896,547	9,052,032	21,219,115
Debt securities	751,813	141,548	546,538	44,385	1,607	1,485,890
Derivative contracts	50,377	176,489	473,695	550,167	182,590	1,433,318
Total	**2,757,351**	**2,164,597**	**11,145,011**	**5,078,555**	**9,251,899**	**30,397,413**

31 DEC 2017 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	711,359	30,629	693,655	978,205	1,488,633	3,902,480
Liabilities to the public and public sector entities	57,284	73,031	263,351	169,890	83,003	646,558
Debt securities issued	7,028,322	4,165,987	10,885,693	3,517,107	706,851	26,303,961
Subordinated liabilities	-	-	347,916	-	-	347,916
Derivative contracts	537,816	324,615	1,010,354	206,494	136,754	2,216,034
Total	**8,334,781**	**4,594,262**	**13,200,969**	**4,871,697**	**2,415,241**	**33,416,949**

Liabilities and hedging derivatives that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 30-50% of its callable liabilities in 2018. In 2017, the company called 35% of its callable liabilities.

31 DEC 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Debt securities eligible for central bank refinancing	540,431	691,657	3,258,656	975,278	-	5,466,022
Loans and advances to credit institutions	428,852	-	-	-	9,681	438,533
Loans and advances to the public and public sector entities	247,407	1,379,858	6,478,029	4,072,226	8,732,233	20,909,752
Debt securities	1,150,210	257,169	529,645	63,199	3,193	2,003,415
Derivative contracts	58,149	551,579	1,824,114	742,671	457,789	3,634,302
Total	**2,425,050**	**2,880,263**	**12,090,443**	**5,853,374**	**9,202,895**	**32,452,025**

31 DEC 2016 (EUR 1,000)	0-3 months	3-12 months	1-5 years	5-10 years	Over 10 years	Total
Liabilities to credit institutions	2,258,289	47,421	363,254	977,491	1,715,862	5,362,317
Liabilities to the public and public sector entities	28,902	162,231	363,593	232,531	85,662	872,919
Debt securities issued	4,463,726	5,697,652	11,755,878	2,013,916	652,997	24,584,169
Subordinated liabilities	-	-	347,426	-	-	347,426
Derivative contracts	47,774	185,837	1,014,586	183,305	245,356	1,676,859
Total	**6,798,692**	**6,093,141**	**13,844,737**	**3,407,242**	**2,699,877**	**32,843,690**

Liabilities that may be called in prematurely have been classified in the maturity class corresponding to the first possible call date. The company estimates it will call 40-60% of its callable liabilities in 2017. In 2016, the company called 40% of its callable liabilities.

NOTE 19. BREAKDOWN OF THE BALANCE SHEET ITEMS INTO DOMESTIC AND FOREIGN CURRENCY

31 DEC 2017 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	5,008,344	-	5,008,344
Loans and advances to credit institutions	1,245,004	5,742	1,250,746
Loans and advances to the public and public sector entities	21,219,114	-	21,219,114
Debt securities	1,279,021	206,869	1,485,890
Derivative contracts	1,426,476	6,842	1,433,318
Other assets incl. cash and balances in central banks	4,327,576	12,697	4,340,273
Total	**34,505,535**	**232,150**	**34,737,685**

31 DEC 2017 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	3,860,290	42,190	3,902,480
Liabilities to the public and public sector entities	393,161	253,398	646,558
Debt securities issued	3,559,822	22,744,139	26,303,961
Derivative contracts	2,132,419	83,615	2,216,034
Subordinated liabilities	347,916	-	347,916
Other liabilities	1,320,736	-	1,320,736
Total	**11,614,344**	**23,123,341**	**34,737,685**

31 DEC 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Debt securities eligible for central bank refinancing	5,448,487	17,536	5,466,022
Loans and advances to credit institutions	432,402	6,131	438,533
Loans and advances to the public and public sector entities	20,909,752	-	20,909,752
Debt securities	1,789,465	213,950	2,003,415
Derivative contracts	3,626,094	8,208	3,634,302
Other assets incl. cash and balances in central banks	1,595,793	3,799	1,599,593
Total	**33,801,993**	**249,624**	**34,051,617**

31 DEC 2016 (EUR 1,000)	Domestic currency	Foreign currency	Total
Liabilities to credit institutions	5,268,229	94,088	5,362,317
Liabilities to the public and public sector entities	590,874	282,045	872,919
Debt securities issued	2,377,486	22,206,683	24,584,169
Derivative contracts	1,643,049	33,810	1,676,859
Subordinated liabilities	347,426	-	347,426
Other liabilities	1,207,927	-	1,207,927
Total	**11,434,992**	**22,616,626**	**34,051,617**

NOTE 20. REPURCHASE AGREEMENTS

Nothing to report.

NOTE 21. FAIR VALUES AND BOOK VALUES OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS	31 DEC 2017		31 DEC 2016	
(EUR 1,000)	Book value	Fair value	Book value	Fair value
Cash and balances with central banks	3,554,182	3,554,182	988,949	988,949
Debt securities eligible for central bank refinancing	5,008,344	5,008,344	5,466,022	5,466,022
Loans and advances to credit institutions	1,250,746	1,250,746	438,533	438,533
Loans and advances to the public and public sector entities	21,219,114	23,006,055	20,909,752	22,957,711
Debt securities	1,485,890	1,486,320	2,003,415	2,003,896
Shares and participations	9,662	9,662	9,695	9,695
Shares and participations in Group companies	612	612	112	112
Derivative contracts	1,433,318	1,433,318	3,634,302	3,634,302
Total	**33,961,868**	**35,749,239**	**33,450,782**	**35,499,222**

FINANCIAL LIABILITIES	31 DEC 2017		31 DEC 2016	
(EUR 1,000)	Book value	Fair value	Book value	Fair value
Liabilities to credit institutions	3,902,480	3,978,548	5,362,317	5,531,362
Liabilities to the public and public sector entities	646,558	650,712	872,919	888,677
Debt securities issued	26,303,961	26,356,850	24,584,169	24,650,226
Derivative contracts	2,216,034	2,216,034	1,676,859	1,676,859
Subordinated liabilities	347,916	397,194	347,426	380,125
Total	**33,416,949**	**33,599,339**	**32,843,691**	**33,127,248**

NOTE 22. HIERARCHY OF FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

31 DEC 2017 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	42,750	69,035	-	111,785
Loans and advances to the public and public sector entities *	-	-	-	-
Derivative contracts	-	167,692	38,696	206,388
Hedging derivatives	-	1,226,930	-	1,226,930
Available-for-sale assets				
Debt securities	5,626,984	1,607	-	5,628,591
Shares in investment funds	9,662	-	-	9,662
Total	**5,679,396**	**1,465,263**	**38,696**	**7,183,356**

31 DEC 2017 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions *	-	3,198,950	-	3,198,950
Liabilities to the public and public sector entities *	-	617,371	-	617,371
Debt securities issued *	-	19,961,876	-	19,961,876
Derivative contacts	-	219,612	38,696	258,308
Hedging derivatives	-	1,957,725	-	1,957,725
Total	**-**	**25,955,535**	**38,696**	**25,994,231**

* The rows in question contain items which are in fair value hedge accounting and are valued at fair value only in terms of the hedged risk. The carrying amounts of these items differ from the fair values shown in the table above.

VALUE OF ITEMS INCLUDED HEDGE ACCOUNTING (EUR 1,000)	**31 DEC 2017**	**31 DEC 2016**	**Recognised in the income statement 2017**
Financial assets			
Portfolio hedge accounting			
Loans and advances to the public and public sector entities	128,136	213,373	-85,238
Hedging instruments	-110,438	-197,474	87,037
Portfolio hedge accounting, net	**17,698**	**15,899**	**1,799**
Fair value hedge accounting			
Loans and advances to the public and public sector entities	31,507	44,344	-12,837
Hedging instruments	-31,755	-43,936	12,181
Fair value hedge accounting, net	**-248**	**408**	**-656**
Financial liabilities			
Fair value hedge accounting			
Liabilities to credit institutions	-404,663	-519,016	114,352
Liabilities to the public and public sector entities	-56,718	-75,203	18,485
Debt securities issued	154,820	-30,934	185,754
Hedging instruments	306,070	623,149	-317,079
Fair value hedge accounting, net	**-491**	**-2,004**	**1,512**
Total hedge accounting	**16,959**	**14,303**	**2,655**

The figures presented in the table contain the fair value change with respect to the hedged risk. These fair value changes have been presented in the consolidated income statement on row Net income from hedge accounting. Net income from hedge accounting is split in Note 36. The total of the hedging instruments in this table does therefore not reconcile to the row Contracts in Hedge accounting in Note 12.

IMPACT OF AVAILABLE-FOR-SALE FINANCIAL ASSETS ON THE INCOME STATEMENT DUE TO THE APPLICATION OF HEDGE ACCOUNTING

(EUR 1,000)	**31 DEC 2017**	**31 DEC 2016**	**Impact of interest rate risk on the income statement in 2017**	**Impact on fair value reserve in 2017 ***	**Change in fair value ***
Financial assets					
Fair value hedge accounting					
Debt securities	74,497	102,062	43,879	8,991	24,495
Hedging instruments	-43,879	-82,683	-43,879	-	-
Fair value hedge accounting, net	**30,618**	**19,379**	**0**	**8,991**	**24,495**

* Figures in columns Impact on fair value reserve and Change in fair value do not include deferred taxes.

31 DEC 2016 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Assets at fair value				
Items at fair value through profit or loss				
Debt securities	15,573	433,872	-	449,445
Loans and advances to the public and public sector entities *	-	7,271,774	-	7,271,774
Derivative contracts	-	325,262	67,453	392,715
Hedging derivatives	-	3,241,587	-	3,241,587
Available-for-sale assets				
Debt securities	6,020,942	3,193	-	6,024,134
Shares in investment funds	9,668	-	-	9,668
Total	**6,046,182**	**11,275,687**	**67,453**	**17,389,323**

31 DEC 2016 (EUR 1,000)	Level 1	Level 2	Level 3	Total
Liabilities at fair value				
Items at fair value through profit or loss				
Liabilities to credit institutions *	-	3,162,981	-	3,162,981
Liabilities to the public and public sector entities *	-	693,109	-	693,109
Debt securities issued *	-	20,051,756	-	20,051,756
Derivative contacts	-	294,700	67,453	362,153
Hedging derivatives	-	1,314,705	-	1,314,705
Total	**-**	**25,517,251**	**67,453**	**25,584,704**

* The rows in question contain items which are in fair value hedge accounting and are valued at fair value only in terms of the hedged risk. The carrying amounts of these items differ from the fair values shown in the table above.

LEVEL 1

Valuation is based on quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date. The prices used are unadjusted. A market is considered to be functioning if trading is frequent and price data is regularly available. MuniFin bases its valuations for some instruments on quoted prices for identical instruments from Bloomberg and Reuters. These quotes (mid) represent the price for an orderly transaction between parties in the market on the valuation date. These quotes therefore represent the fair value for these products. Level 1 financial assets comprise mainly investments in debt securities.

LEVEL 2

Valuation is based on input data other than Level 1 quoted prices. Prices can be observed either directly or indirectly. Level 2 financial instruments are not actively traded on functioning markets and the fair value is determined by using generally accepted valuation models and methods.

The fair values may be based on quotations of similar assets or liabilities in active markets or quotations of equivalent or similar assets or liabilities in markets that are not active. The fair values may also be calculated based on other input data than quoted prices that can be observed for an asset or a liability. Examples of such input data include interest rates and profit curves for which regular quotations are available, implicit volatilities and credit margins. The requirement is that the input data is observable on regular intervals. If a financial asset or a financial liability has a fixed maturity, the level 2 input data must be observable to a material extent during the existence of a financial asset or liability.

Level 2 valuation is based on methods in which contractual cash flows are modeled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. The valuation methods utilise observable input data. Level 2 financial instruments primarily comprise OTC derivatives, the company's own issued bonds and lending.

Fair value of OTC derivatives is based on valuation models. Observable market interest rates are used for discounting. In addition valuations are based on other input data depending on attributes of an instrument. Numerix (a pricing model library) is used for valuing structured instruments. Valuation models in Numerix are equivalent to those models generally accepted on the financial markets. OTC derivatives are classified to level 2, if all material input data used in valuation models can be verified on functioning markets.

LEVEL 3

Valuation is based on inputs other than level 1 quoted prices or the observable inputs used in level 2 in valuation methods. Level 3 valuation includes unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available. MuniFin's level 3 input is the historical volatility, which is only used in cases where implied volatility is not available.

Level 3 valuation is based on methods in which contractual cash flows are modelled using forward curves after which the cash flows are discounted using currency and interest based discount curves. Valuation of contracts containing options is performed using interest and option pricing models which are generally accepted on the financial markets. These valuation methods may utilise input data, which is not directly observable from the market and has a material impact on the valuation. Level 3 financial instruments primarily comprise equity-linked OTC-derivatives and embedded derivatives which have been bifurcated from the company's issued debt securities.

All valuation models take advantage of market information such as interest rates, volatilities and correlations. Some of the input data used may be verified whereas some of it may not be. All interest rates of main currencies can be verified, as well as interest rates, volatilities and correlation up to a certain point in time. If the impact of unverified input data is material, an instrument is classified to the fair value hierarchy level 3.

TRANSFERS IN THE FAIR VALUE HIERARCHY

During 2017 and 2016 financial years, no reclassifications have been made between Level 1 and Level 2.
During 2017 financial assets have been transfered into Level 3 due to changes in input data used in the valuation.The transfers are presented using fair values of 31 December 2017.

	Derivative assets	Derivative liabilities	Debt securities	
2017 (EUR 1,000)	**Held-for-trading**	**Held-for-trading**	**Financial assets at amortised cost**	**Total**
1 Jan 2017	67,453	-67,453	-	0
Change in fair value in the income statement	-9,465	9,465	-	0
Purchases	22,188	-22,188	-	0
Sales	-41,480	41,480	-	0
Transfers into level 3	-	-	4,878	4,878
Transfers out of level 3	-	-	-	-
31 Dec 2017	**38,696**	**-38,696**	**4,878**	**4,878**

During 2016 no financial assets or liabilities have been transfered into Level 3. Due to changes in input data used in the valuation, derivatives and embedded derivatives separated from issued bonds have been transferred from Level 3 to Level 2. The transfers are presented using fair values of 31 December 2015.

	Derivative assets	Derivative liabilities	
2016 (EUR 1,000)	**Held-for-trading**	**Held-for-trading**	**Total**
1 Jan 2016	121,720	-121,720	0
Change in fair value in the income statement	-13,078	13,078	0
Purchases	18,843	-18,843	0
Sales	-32,510	32,510	0
Transfers into level 3	-	-	-
Transfers out of level 3	-27,521	27,521	0
31 Dec 2016	**67,454**	**-67,454**	**0**

Sensitivity analysis of unobservable inputs
Unobservable inputs are share and index volatilities for which no quotations exists in liquid markets. Market quotations for 2014- 2017 have been used to calculate ranges for unobservable inputs. The fair values of the contracts in high volatility and low volatility scenarios have been estimated based on the range of the inputs. In the low volatility scenario the fair value of the derivatives increases by EUR 40.4 million (2016: EUR 47.2 million) and the fair value of the embedded derivative of the debt instrument decreases by EUR 40.4 million (2016: EUR 47.2 million). In the high volatility scenario the fair value of the derivatives decreases by EUR 24.7 million (2016: EUR 33.8 million) and the fair value of the embedded derivative of the debt instrument increases by EUR 24.7 million (2016: EUR 33.8 million).

NOTE 23. EQUITY

31 DEC 2017 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2017	43,008	277	19,519	40,743	61,496	165,043
+ increase	-	-	9,425	-	33,960	43,385
– decrease	-	-	-	-	-	-
Book value 31 Dec 2017	**43,008**	**277**	**28,944**	**40,743**	**95,457**	**208,428**

31 DEC 2016 (EUR 1,000)	Share capital	Reserve fund	Fair value reserve	Reserve for invested non-restricted equity	Retained earnings	Total
Book value, beginning of period, 1 Jan 2016	43,008	277	11,354	40,743	54,688	150,070
+ increase	-	-	8,165	-	6,808	14,973
– decrease	-	-	-	-	-	-
Book value 31 Dec 2016	**43,008**	**277**	**19,519**	**40,743**	**61,496**	**165,043**

NOTE 24. SHARE CAPITAL

The shares in Municipality Finance Plc are divided into A and B shares. The two types are equal in terms of voting rights and the distribution of profit. Each share entitles its holder to one vote. The shares have no nominal value. The acquisition of shares is restricted through the consent and redemption clauses of the Articles of Association. At the end of 2017, the company's share capital, paid up and recorded in the Trade Register, amounted to EUR 43,008 thousand. The total number of shares is 39,063,798 which is divided to A shares (26,331,646) and B shares (12,732,152).

NOTE 25. LARGEST SHAREHOLDERS

The ten largest shareholders in terms of voting rights and the number of shares held by them, their portion of all shares in the credit institution and of all votes carried by the shares as well as the total number of shareholders:

31 DEC 2017	No. of shares	Per cent
1. Keva	11,975,550	30.66 %
2. Republic of Finland	6,250,000	16.00 %
3. City of Helsinki	4,066,525	10.41 %
4. City of Espoo	1,547,884	3.96 %
5. VAV Asunnot Oy (City of Vantaa)	963,048	2.47 %
6. City of Tampere	919,027	2.35 %
7. City of Oulu	903,125	2.31 %
8. City of Turku	615,681	1.58 %
9. City of Kuopio	592,028	1.52 %
10. City of Lahti	537,926	1.38 %

The total number of shareholders is 278 (2016: 278).

The number of shares in the table does not include possible shares held by shareholders' group companies.

Notes to the income statement

The company has not combined any items in the income statement under Chapter 2, Section 14(4), of the Ministry of Finance Decree.

NOTE 26. INTEREST INCOME AND EXPENSE

31 DEC 2017 (EUR 1,000)	**Interest income**	**Interest expense**	**Net**
Assets			
Loans and advances to credit institutions and central banks	352	-12,476	-12,124
Loans and advances to the public and public sector entities	200,931	-	200,931
Debt securities	26,556	-1,996	24,561
Derivatives in hedge accounting	-118,942	-	-118,942
Derivatives held-for-trading	70,761	-30,494	40,268
Other interest income	2,190	-	2,190
Interest on assets	**181,849**	**-44,965**	**136,884**
Liabilities			
Liabilities to credit institutions	6,407	-75,581	-69,174
Liabilities to the public and public sector entities	-	-21,574	-21,574
Debt securities issued	0	-345,955	-345,954
Derivatives in hedge accounting	-	525,996	525,996
Subordinated liabilities	-	-16,240	-16,240
Other interest expense	-	-733	-733
Interest on liabilities	**6,407**	**65,913**	**72,320**
Total	**188,256**	**20,948**	**209,204**

In accordance with Financial Supervisory Authority Regulations and Guidelines 2/2016 articles 99 ja 104 negative interest income on assets is presented in interest expenses and positive interest expense on liabilities as interest income.

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities. Interest income on liabilities to credit institutions consists of interest received on collaterals.

Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

31 DEC 2016 (EUR 1,000)	Interest income	Interest expense	Net
Assets			
Loans and advances to credit institutions and central banks	40	-9,838	-9,798
Loans and advances to the public and public sector entities	210,737	-	210,737
Debt securities	9,586	-1,092	8,494
Derivatives in hedge accounting	-99,302	-	-99,302
Derivatives held-for-trading	50,131	-28,411	21,719
Other interest income	1,046	0	1,046
Interest on assets	**172,238**	**-39,341**	**132,897**
Liabilities			
Liabilities to credit institutions	5,935	-56,571	-50,636
Liabilities to the public and public sector entities	-	-18,185	-18,185
Debt securities issued	33	-442,773	-442,739
Derivatives in hedge accounting	-	583,243	583,243
Subordinated liabilities	-	-16,833	-16,833
Other interest expense	-	-188	-188
Interest on liabilities	**5,968**	**48,693**	**54,661**
Total	**178,206**	**9,352**	**187,558**

In accordance with Financial Supervisory Authority Regulations and Guidelines 2/2016 articles 99 ja 104 negative interest income on assets is presented in interest expenses and positive interest expense on liabilities as interest income.

Interest expenses on loans and advances to credit institutions and central banks consists of interest paid on central bank deposits and collaterals. Interest expenses on debt securities consists of interest paid on ECPs. Derivative contracts treated as items adjusting interest income and included in hedge accounting are used as hedges for loans and advances to the public and public sector entities and debt securities. Interest income on liabilities to credit institutions consists of interest received on collaterals.

Derivative contracts treated as items adjusting interest expense and included in hedge accounting are used as hedges for liabilities to credit institutions, liabilities to the public and public sector entities and debt securities issued.

NOTE 27. NET INCOME FROM LEASING OPERATIONS

(EUR 1,000)	2017	2016
Leasing income	33,569	27,239
Depreciation on leased assets according to plan	-30,466	-24,945
Capital gains and losses on leased assets	0	3
Total	**3,104**	**2,297**

NOTE 28. INCOME FROM EQUITY INVESTMENTS

(EUR 1,000)	2017	2016
Dividend income from Group companies	-	63
Total	**-**	**63**

NOTE 29. COMMISSION INCOME AND EXPENSE

COMMISSION INCOME (EUR 1,000)	2017	2016
From other operations	758	601
Total	**758**	**601**

COMMISSION EXPENSE (EUR 1,000)	2017	2016
Commission fees paid	206	202
Other	3,861	3,822
Total	**4,067**	**4,023**

Item Other includes paid guarantee fees, custody fees and funding programme update costs.

NOTE 30. NET INCOME FROM SECURITIES AND FOREIGN EXCHANGE TRANSACTIONS

2017 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	117	8,145	8,261
Items valued with the fair value option	-	170	170
Total net income from securities transactions	**117**	**8,315**	**8,432**
Net income from foreign exchange transactions	-2,210	-26	-2,236
Total	**-2,093**	**8,289**	**6,196**

2016 (EUR 1,000)	Capital gains and losses (net)	Changes in fair value	Total
Derivative contracts	-13	858	845
Items valued with the fair value option	-2,293	-711	-3,004
Total net income from securities transactions	**-2,306**	**147**	**-2,159**
Net income from foreign exchange transactions	-16	415	400
Total	**-2,322**	**562**	**-1,759**

NOTE 31. NET INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

(EUR 1,000)	2017	2016
Income from shares in investment funds	62	94
Disposals of financial assets	569	-661
Transfers from the fair value reserve	-137	99
Total	**494**	**-468**

NOTE 32. NET INCOME FROM HEDGE ACCOUNTING

(EUR 1,000)	2017	2016
Net income from hedging instruments	-187,503	247,588
Net income from hedged items	190,158	-245,001
Total	**2,655**	**2,587**

NOTE 33. OTHER OPERATING INCOME

(EUR 1,000)	2017	2016
Other income from credit institution operations	196	185
Total	**196**	**185**

NOTE 34. OTHER OPERATING EXPENSES

(EUR 1,000)	2017	2016
Expenses to authorities		
Contributions to the resolution fund	3,756	2,613
Other administrative and supervisory fees	1,844	1,212
Rental expenses	1,908	1,865
Other expenses from credit institution operations	6,836	4,432
Total	**14,344**	**10,122**

NOTE 35. DEPRECIATION AND IMPAIRMENT ON TANGIBLE AND INTANGIBLE ASSETS

The item consists of depreciation according to the plan.

NOTE 36. IMPAIRMENT ON LOANS AND OTHER COMMITMENTS

In 2017 MuniFin booked an impairment loss totalling EUR 1,366 thousand on Loans and advances to the public and public sector entities. The company has a receivable of the equivalent amount from the guarantor of the loan. The receivable is shown in the statement of financial position on line Other assets and shown as a decrease of the impairment loss in the income statement. The impairment loss and the equivalent receivable are shown in the income statement on row Impairment on loans and other receivables.

No imparment losses were booked on loans and other receivables during 2016.

2017 (EUR 1,000)	**Individual impairment losses, gross**	**Adjustments**	**Profit and Loss**
Loans and advances to the public and public sector entities	1,366	-1,366	0
Total impairment losses on loans and other commitments	**1,366**	**-1,366**	**0**

2016 (EUR 1,000)	**Individual impairment losses, gross**	**Adjustments**	**Profit and Loss**
Loans and advances to the public and public sector entities	-	-	-
Total impairment losses on loans and other commitments	**-**	**-**	**-**

NOTE 37. IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

MuniFin has not made any impairment losses or their reversals in 2017 or 2016.

NOTE 38. INFORMATION ON BUSINESS AREAS AND GEOGRAPHICAL MARKET

MuniFin operating segment is credit institution operations and the market for lending is Finland.

Notes on collateral and contingent liabilities

NOTE 39. COLLATERAL GIVEN

PLEDGES FOR OWN DEBT (EUR 1,000)	31 DEC 2017	31 DEC 2016
Liabilities to credit institutions	3,902,480	5,362,317
Liabilities to the public and public sector entities	646,558	872,919
Debt securities issued	26,303,961	24,584,169
Total	**30,853,000**	**30,819,405**

Collateral given is presented in accordance with the balance sheet values on 31 December.

LIABILITIES AND COLLATERAL (EUR 1,000)	31 DEC 2017	31 DEC 2016
Loans pledged to the central bank	2,476,968	2,284,380
Loans pledged to the Municipal Guarantee Board	18,581,280	18,364,852
Total	**21,058,248**	**20,649,231**

NOTE 40. PENSION LIABILITIES

Pension coverage has been arranged via an external pension insurance company.

NOTE 41. LEASING AND OTHER RENTAL LIABILITIES

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Maturing within one year	1,246	1,425
Maturing in one to five years	740	2,205
Maturing in more than five years	-	-
Total	**1,986**	**3,630**

NOTE 42. OFF-BALANCE SHEET COMMITMENTS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Loan commitments	2,270,346	1,883,319
Total	**2,270,346**	**1,883,319**

Notes on personnel and management

NOTE 43. PERSONNEL

	2017		2016	
	Average	End of year	Average	End of year
Permanent full-time	95	108	82	84
Permanent part-time	2	4	2	2
Fixed term	9	7	5	4
Total	**106**	**119**	**89**	**90**

Employee benefits for management
Salaries and remuneration paid to the CEO, Deputy to the CEO and other members of the Board of Management subject to withholding tax:

SALARIES AND REMUNERATION (EUR 1,000)	2017	2016
President and CEO	426	489
Deputy to the CEO	360	388
Other members of the Board of Management in Total	936	1043
Total	**1,722**	**1,920**

Remuneration of the Board of Directors
The members of the Board of Directors of the parent company are paid an annual remuneration as well as remuneration for each meeting in accordance with the decision of the Annual General Meeting. The annual remuneration is EUR 30,000 for the Chairman of the Board, EUR 18,000 for the Vice Chairman and EUR 15,000 for the other members of the Board. The remuneration paid for Board and committee meetings is EUR 800 per meeting for the Chairman of the Board and the chairmen of committees and EUR 500 per meeting for the other members. In addition, a meeting remuneration is paid for the meetings required by the supervisory authorities.

SALARIES AND REMUNERATION (EUR 1,000) MEMBERS OF THE BOARD OF DIRECTORS	2017	2016
Helena Walldén, Chairman 22 March 2016 onwards	65	22
Eva Liljeblom, Chairman until 22 March 2016	-	24
Tapani Hellstén, Vice Chairman	37	23
Fredrik Forssell	36	27
Minna Helppi, member 23 March 2017 onwards	21	-
Teppo Koivisto	38	26
Jari Koskinen, member 23 March 2017 onwards	20	-
Sirpa Louhevirta, member until 23 March 2017	13	25
Vivi Marttila, member 22 March 2016 onwards	32	13
Tuula Saxholm	35	26
Asta Tolonen, member until 22 March 2016	-	12
Juha Yli-Rajala, member until 23 March 2017	13	26
Total	**310**	**221**

During the year 2017, the payment schedule for the Board of Directors' remuneration has been revised. In addition the Board of Directors has had more meetings in 2017 and these together show an increase in the remuneration.

Related party transactions

NOTE 44. LOANS AND OTHER FINANCIAL RECEIVABLES FROM THE RELATED PARTIES

MuniFin does not have any loan or financial receivables, or other receivables referred to in Section 140(2) of the Act on Credit Institutions from related parties.

Holdings in other companies

NOTE 45. HOLDINGS IN OTHER COMPANIES

	2017		2016	
(EUR 1,000)	Proportion of all shares (%)	Book value	Proportion of all shares (%)	Book value
Subsidiaries				
Financial Advisory Services Inspira Ltd	100.0	612	64.4	112
Total	**100.0**	**612**	**64.4**	**112**

On 31 December 2017, MuniFin has reported its subsidiary, Financial Advisory Services Inspira Ltd, as 100 % owned subsidiary. The redemption of shares held by minority shareholders has been finalized in the beginning of 2018. The obligation related to the redemption has been accounted for on 31 December 2017. The redemption is related to Inspira's shareholder agreement expired in 2017.

Other notes

NOTE 46. AUDIT AND OTHER FEES PAID TO THE AUDIT FIRM

(EUR 1,000)	2017	2016
Audit	232	179
Tax advisory services	5	15
Other services	131	204
Total	**368**	**397**

Amounts do not include VAT.

Capital adequacy

Notes 47-50 disclose a summary of information on the capital adequacy of MuniFin as specified in the EU Capital Requirements Regulation (EU No 575/2013) (CRR). Complete Pillar III disclosures are not included in MuniFin Group's financial statements. The Pillar III disclosures can be found in the Pillar III report on the company's website in English.

NOTE 47. OWN FUNDS

(EUR 1,000)	31 DEC 2017	31 DEC 2016
Share capital	43,008	43,008
Reserve for invested non-restricted equity	40,743	40,743
Retained earnings	95,457	61,496
Fair value reserve, transitional provision	28,944	19,519
Other reserves	773,631	662,099
Foreseeable dividend	-6,250	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**975,532**	**826,865**
Intangible assets	-10,330	-6,881
Deductions due to prudential filters on Common Equity Tier 1	-20,544	-43,985
Common Equity Tier 1 (CET1) capital	**944,658**	**776,000**
Capital loans to which transitional provision is applied	-	-
Additional Tier 1 (AT1) capital	**347,916**	**347,426**
Tier 1 (T1) capital	**1,292,574**	**1,123,426**
Tier 2 (T2) capital	**-**	**-**
Total own funds	**1,292,574**	**1,123,426**

Based on EU Capital requirements regulation and FIN-FSA regulations and guidelines 25/2013 unrealised gains on assets measured at fair value (fair value reserve) are included in Common Equity Tier 1 (during 1 January 2015 - 31 December 2017). Common Equity Tier 1 capital includes the profit for the period, which has been subject to a review by the external auditor, and therefore can be included in CET1 capital on the basis of permission granted by the ECB in accordance with the Capital Requirements Regulation. Deductions due to prudential filters on CET1 capital are made up of MuniFin's debt value adjustment (DVA) and other value adjustments (PVA, AVA). In addition, the amount of foreseeable dividend has been deducted from CET1 capital.

Additional Tier 1 capital contains MuniFin's AT1 capital loan EUR 350 million which was issued on October 1st 2015. A detailed description of the instruments included in Additional Tier 1 capital is available in the parent company's note 17. Subordinated liabilities and in a Pillar III report, which is published separately from this financial statements, available in English on the company's website.

NOTE 48. KEY FIGURES FOR CAPITAL ADEQUACY

	31 DEC 2017	31 DEC 2016
Ratio of Common Equity Tier 1 (CET1) to risk-weighted assets, %	55.71	46.35
Ratio of Tier 1 capital (T1) to risk-weighted assets, %	76.22	67.11
Ratio of total own funds to risk-weighted assets, %	76.22	67.11

NOTE 49. MINIMUM REQUIREMENT FOR OWN FUNDS

The capital requirement for credit risk is calculated using the standardised approach. In calculating the capital requirements for market risk, only foreign exhange risk is taken into account as the group does not have a trading book nor share or commodity positions. As foreign exchange risk is hedged by swapping all currency denominated funding and investments into euros, the company's foreign exchange position is very small. The capital requirement for operative risks is calculated using the basic indicator approach.

	31 DEC 2017		31 DEC 2016	
(EUR 1,000)	**Capital requirement**	**Risk-weighted assets**	**Capital requirement**	**Risk-weighted assets**
Credit and counterparty credit risk, standardised approach	**108,170**	**1,352,121**	**107,749**	**1,346,863**
Exposures to central governments or central banks	302	3,780	778	9,725
Exposures to regional governments or local authorities	332	4,153	379	4,735
Exposures to public sector entities	4,742	59,271	4,275	53,435
Exposures to multilateral development banks	953	11,944	965	12,068
Exposures to institutions	81,824	1,022,805	79,933	999,157
Exposures in the form of covered bonds	19,063	238,284	20,303	253,793
Items representing securitisation positions	104	1,296	423	5,284
Exposures in the form of shares in CIUs	103	1,286	107	1,331
Other items	747	9,333	587	7,334
Market risk	**1,075**	**13,436**	**794**	**9,930**
Credit valuation adjustment risk (CVA VaR), standardised method	**979**	**12,233**	**1,304**	**16,299**
Operational risk, basic indicator approach	**25,441**	**318,019**	**24,083**	**301,035**
Total	**135,665**	**1,695,809**	**133,930**	**1,674,128**

The capital requirement for counterparty credit risk is EUR 2,995 thousand (2016: EUR 4,826 thousand).

NOTE 50. EXPOSURE BY CLASS

31 DEC 2017 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	4,004,347	-	-	4,004,347	3,780
Exposures to regional governments or local authorities	9,578,898	873,521	160,014	10,612,433	4,153
Exposures to public sector entities	281,233	-	-	281,233	59,271
Exposures to multilateral development banks	232,631	-	-	232,631	11,914
Exposures to international organisations	73,917	-	-	73,917	0
Exposures to institutions	4,160,887	-	590,101	4,750,988	1,022,805
Exposures to corporates	5,086,565	274,461	-	5,361,025	0
Exposures secured by mortgages on immovable property	7,733,922	1,122,364	-	8,856,287	0
Exposures in default	450	-	-	450	0
Exposures in the form of covered bonds	1,938,881	-	-	1,938,881	238,284
Items representing securitisation positions	6,478	-	-	6,478	1,296
Exposures in the form of shares in CIUs	9,635	-	-	9,635	1,286
Other items	79,838	-	-	79,838	9,333
Total	**33,187,681**	**2,270,346**	**750,115**	**36,208,143**	**1,352,121**

31 DEC 2016 (EUR 1,000) EXPOSURE CLASSES	On-balance sheet exposure	Off-balance sheet exposure	Derivatives exposure	Total exposure	Risk-weighted assets
Exposures to central governments or central banks	1,564,884	-	-	1,564,884	9,725
Exposures to regional governments or local authorities	10,126,880	716,850	223,150	11,066,880	4,735
Exposures to public sector entities	267,177	-	-	267,177	53,435
Exposures to multilateral development banks	256,452	-	-	256,452	12,068
Exposures to international organisations	133,691	-	-	133,691	0
Exposures to institutions	3,670,300	-	741,487	4,411,787	999,157
Exposures to corporates	4,832,744	337,577	-	5,170,321	0
Exposures secured by mortgages on immovable property	7,208,747	828,892	-	8,037,639	0
Exposures in the form of covered bonds	2,055,196	-	-	2,055,196	253,793
Items representing securitisation positions	26,419	-	-	26,419	5,284
Exposures in the form of shares in CIUs	9,668	-	-	9,668	1,331
Other items	92,046	-	-	92,046	7,334
Total	**30,244,204**	**1,883,319**	**964,637**	**33,092,159**	**1,346,863**

Signatures to the Report of the Board of Directors and Financial Statements

Helsinki, 14 February 2018

MUNICIPALITY FINANCE PLC

Helena Walldén
Chairman of the Board

Tapani Hellstén
Vice Chairman of the Board

Fredrik Forssell
Member of the Board

Minna Helppi
Member of the Board

Teppo Koivisto
Member of the Board

Jari Koskinen
Member of the Board

Vivi Marttila
Member of the Board

Tuula Saxholm
Member of the Board

Esa Kallio
Interim President and CEO

Auditor’s Note

A report of the audit performed has been issued today.
Helsinki, 14 February 2018

KPMG Oy Ab

Marcus Tötterman
Authorized Public Accountant

Auditor's Report

To the Annual General Meeting of Municipality Finance Plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Municipality Finance Plc (business identity code 1701683-4) for the year ended 31 December, 2017. The financial statements comprise the the consolidated statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

— the consolidated financial statements give a true and fair view of the group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU

— the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report submitted to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the parent company and group companies are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 46 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Valuation of financial assets and financial liabilities measured at fair value (Refer to Summary of significant accounting policies pp. 23–27 and notes 4, 5, 12 and 34 to the consolidated financial statements, and notes 4, 7, 21 and 22 for the parent company's separate financial statements)	
— Assessing the accuracy of valuation of financial instruments measured at fair value (below referred to as "investments") was one of our focus areas, as valuation of investments partly involves management judgement. In addition, Municipality Finance uses fair value models for valuation purposes, when quotations or prices are not directly available in an active market. — Investments account for a substantial part of assets and liabilities in the statement of financial position, consequently their valuation was considered a key audit matter.	Our audit procedures included, among others: — We tested key internal controls over the accuracy of investment valuation process. We also assessed valuation processes and practices used by Municipality Finance as well as valuation techniques, inputs, assumptions and procedures applied in fair value measurement. — We tested the accuracy of investment valuations on a sample basis. We also assessed the inputs used in fair value models on a sample basis by comparing with market information at the financial year-end. — Furthermore, we considered the appropriateness of the notes in respect of investments.

Hedge accounting
(Refer to Summary of significant accounting policies pp. 27–28 and notes 4, 5, 12 and 36 to the consolidated financial statements and notes 7 and 32 for the parent company's separate financial statements)

- Municipality Finance applies hedge accounting to reduce the accounting mismatch between financial assets and liabilities and the related derivative contracts hedging market risks of borrowing and lending activities.
- Due to the application of hedge accounting, the carrying values of those financial assets and financial liabilities to which hedge accounting is applied, include unrealized fair value change related to hedged risks.
- The hedge accounting process includes various accounting phases. Due to its significant impact on financial statements, hedge accounting was considered as key audit matter.

Our audit procedures included, among others:

- We evaluated the hedge accounting practices applied for compliance with the relevant financial reporting standards, and the adequacy of the related notes to the financial statements.
- We also assessed the functionality of accounting data processing in Municipality Finance.
- In addition, we considered the hedge effectiveness testing prepared by Municipality Finance.

IT environment and controls over financial reporting

- In Municipality Finance, the information systems related to financial reporting process and the associated controls play an essential role in data managing and processing.
- Data processing involves operational risks relating to data completeness, information security, automatic accounting rules and the functionality of manual controls.
- In the financial year 2017 Municipality Finance carried out reforms in the IT environment related to management of investment instrument. Management and processing of investment instruments in the IT environment was identified as a key audit matter.

Our procedures included, among others:

- We evaluated the integrity of data flows and the functionality of data transfers.
- We also assessed and tested key internal controls over the essential IT systems related to financial reporting.
- We inspected the functionality of automatic accounting rules and tested the effectiveness of the related internal controls.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

KPMG Oy Ab was first appointed as audit firm by the Annual General Meeting in 2001, and our appointment represents a total period of uninterrupted engagement of 17 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in in the Annual Report, but does not include the financial statements and our auditor’s report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor’s report, and the Annual Report is expected to be made available to us after that date. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other Opinion

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet and the profit distribution is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors, the Managing Director and the Deputy Managing Director should be discharged from liability for the financial period audited by us.

Helsinki 14 February, 2018

KPMG OY AB

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Authorised Public Accountant, KHT

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